



STATE OF VERMONT

Auditors' Reports as Required by OMB Circular A-133
and Related Information

Year Ended June 30, 2003

STATE OF VERMONT

**Auditors' Reports as Required by OMB Circular A-133
and Related Information**

Year ended June 30, 2003

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State of Vermont
Office of the State Auditor
133 State Street
Montpelier, VT 05633-5101



P.O. Box 564
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Exhibit I

**AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL
OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

Speaker, House of Representatives and
President Pro-Tem of the Senate
Governor
General Assembly, State of Vermont
State House
Montpelier, Vermont

Compliance

We have jointly audited the compliance of the State of Vermont with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of current year findings and questioned costs (Exhibit III). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

Our compliance audit, described below, did not include the operations of the component units that received federal financial assistance during the year ended June 30, 2003 because the component units engaged other auditors to perform audits in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State's compliance with those requirements.

Speaker, House of Representatives and
President Pro-Tem of the Senate
Governor
General Assembly, State of Vermont

As described in findings 2003-11; 2003-13; 2003-14; 2003-15; 2003-16; 2003-17; 2003-25; 2003-27; 2003-28; 2003-29; 2003-30; 2003-31; 2003-32; 2003-33 and 2003-46 in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding subrecipient monitoring (CFDA #20.500; 20.507; 20.509; 93.268; 93.283; 93.959 and 93.667), reporting (CFDA #20.500; 20.507; 20.509 and 93.283), matching, level of effort and earmarking (CFDA #93.283 and 93.959), special tests (CFDA #93.959) and allowable costs (CFDA #20.500; 20.507 and 93.283) that are applicable to its Federal Transit Cluster (CFDA #20.500 and 20.507), Formula Grants for Other than Urbanized Areas (CFDA #20.509), Immunization Grants (CFDA #93.268), Centers for Disease Control and Prevention – Investigations and Technical Assistance (CFDA #93.283), Social Services Block Grant (CFDA #93.667), and Block Grants for Prevention and Treatment of Substance Abuse (CFDA #93.959) programs. Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of current year findings and questioned costs (Exhibit III) as items 2003-12; 2003-18; 2003-19; 2003-20; 2003-21; 2003-22; 2003-23; 2003-24; 2003-26; 2003-34; 2003-35; 2003-36; 2003-37; 2003-38; 2003-39; 2003-40; 2003-41; 2003-42; 2003-43; 2003-44 and 2003-45.

Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the State's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-9; 2003-10; 2003-11; 2003-13; 2003-14; 2003-15; 2003-16; 2003-17; 2003-20; 2003-21; 2003-23; 2003-25; 2003-27; 2003-28; 2003-29; 2003-30; 2003-31; 2003-32; 2003-33; 2003-35; 2003-36; 2003-37; 2003-42; 2003-43; 2003-44; 2003-45 and 2003-46.

Speaker, House of Representatives and
President Pro-Tem of the Senate
Governor
General Assembly, State of Vermont

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2003-9; 2003-10; 2003-11; 2003-13; 2003-14; 2003-15; 2003-16; 2003-17; 2003-20; 2003-21; 2003-23; 2003-25; 2003-27; 2003-28; 2003-29; 2003-30; 2003-31; 2003-32; 2003-33; 2003-35; 2003-36; 2003-37; 2003-42; 2003-43; 2003-44; 2003-45 and 2003-46 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have jointly audited the Schedule of Expenditures of Federal Awards (Schedule) of the State of Vermont for the year ended June 30, 2003. This Schedule is the responsibility of the State's management. Our responsibility is to express an opinion on this Schedule based on our audit.

We conducted our audit of the Schedule of Expenditures of Federal Awards in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Expenditures of Federal Awards is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Expenditures of Federal Awards. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1(c), the accompanying Schedule of Expenditures of Federal Awards is prepared on a cash basis of accounting and is not intended to present the federal expenditures of the State in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule of Expenditures of Federal Awards referred to above presents fairly, in all material respects, the federal expenditures of the State of Vermont for the year ended June 30, 2003 in accordance with the basis of accounting described in note 1(c) to the Schedule of Expenditures of Federal Awards.

Speaker, House of Representatives and
President Pro-Tem of the Senate
Governor
General Assembly, State of Vermont

This report is intended solely for the information and use of management, the cognizant federal agency, the Office of the Inspector General and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Elizabeth M. Ready
State Auditor



KPMG LLP

December 13, 2004

STATE OF VERMONT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Department of Agriculture</u>		
10.025	Plant and Animal Disease Pest Control, and Animal Care	\$ 57,254
10.064	Forestry Incentives Program	1,093
10.450	Crop Insurance	118,853
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	553,358
10.551	Food Stamps (EBT)	36,618,269
10.553	School Breakfast Program	2,395,974
10.555	National School Lunch Program	6,529,878
10.556	Special Milk Program for Children	78,336
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	10,346,849
10.558	Child and Adult Care Food Program	3,760,383
10.559	Summer Food Service Program for Children	338,510
10.560	State Administrative Expenses for Child Nutrition	328,213
10.561	State Administrative Matching Grants for Food Stamp Program	5,607,808
10.565	Commodity Supplemental Food Program	445,953
10.568	Emergency Food Assistance Program (Administrative Costs)	130,369
10.570	Nutrition Services Incentive	623,051
10.572	WIC Farmers' Market Nutrition Program (FMNP)	60,932
10.576	Seniors Farmers Market Nutrition Program	66,286
10.664	Cooperative Forestry Assistance	1,494,592
10.769	Rural Business Enterprise Grant	56,650
10.999	Federal Egg Inspection Program	1,389
10.999	Ag Specialty Crop Promo	313,635
10.999	Organic Certification - Producers	80,616
10.999	Organic Certification - Handlers	4,261
10.999	Dietary Guidelines	55,835
		<hr/> 70,068,347
<u>U.S. Department of Commerce</u>		
11.417	SEA Grant Support	48,557
11.426	Financial Assistance for National Centers for Coastal Ocean Science	30,130
		<hr/> 78,687
<u>U.S. Department of Defense</u>		
12.002	Procurement Technical Assistance for Business Firms	147,139
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	24,075
		<hr/> 171,214
<u>U.S. Department of Housing and Urban Development</u>		
14.181	Supportive Housing for Persons with Disabilities	8,428
14.228	Community Development Block Grant	12,198,917
14.231	Emergency Shelter Grants Program	337,999
14.235	Supporting Housing Program	344,223
14.239	HOME Investment Partnerships Program - VHCB	3,236,843
14.999	Office of Fair Housing - Capacity Building	97,269
		<hr/> 16,223,679

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003

CFDA Number	Federal Agency/Program Title	Expenditures
	<u>U.S. Department of the Interior</u>	
15.605	Sport Fish Restoration	\$ 2,413,960
15.611	Wildlife Restoration	1,216,931
15.615	Cooperative Endangered Species Conservation Fund	16,654
15.622	Sportfishing and Boating Safety Act	50,301
15.625	Wildlife Conservation and Restoration	169,048
15.810	National Cooperative Geologic Mapping Program	150,957
15.904	Historic Preservation Fund Grants-In-Aid	453,472
15.916	Outdoor Recreation - Acquisition, Development and Planning	410,707
15.999	Historic Preservation - National Park Service-Mount Independence ADA Trail Project	22,190
		<hr/> 4,904,220
	<u>U.S. Department of Justice</u>	
16.007	State Domestic Preparedness Equipment Support Program	1,305,859
16.523	Juvenile Accountability Incentive Block Grants	1,447,339
16.528	Training Grants to Stop Abuse and Sexual Assault of Older Individuals or Individuals with Disabilities	26,719
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States	904,980
16.547	Victims of Child Abuse	50,000
16.554	National Criminal History Improvement Program (NCHIP)	920,448
16.560	National Institute of Justice Research, Evaluation and Development Project Grants	27,410
16.564	Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction	118,937
16.574	Criminal Justice Discretionary Grant Program	4,713
16.575	Crime Victim Assistance	1,470,285
16.576	Crime Victim Compensation	230,320
16.579	Bryne Formula Grant Program	1,767,555
16.582	Crime Victim Assistance/Discretionary Grants	288,430
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	257,350
16.588	Violence Against Women Formula Grants	656,659
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	437,888
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	570,502
16.591	Managing Released Sex Offenders	36,611
16.592	Local Law Enforcement Block Grants Program	510,491
16.593	Residential Substance Abuse Treatment for State Prisoners	415,720
16.607	Bulletproof Vest Partnership Program	5,274
16.710	Public Safety Partnership and Community Policing Grants	4,570,659
16.727	Enforcing Underage Drinking Laws Program	412,148
16.733	National Incident Based Reporting System	22,343
16.999	Marijuana Education	52,581
16.999	Drug Enforcement Administration - DEA	9,837
16.999	Telemarketing Fraud	110,009
		<hr/> 16,631,067

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003

CFDA Number	Federal Agency/Program Title	Expenditures
	<u>U.S. Department of Labor</u>	
17.002	Labor Force Statistics	\$ 399,619
17.005	Compensation and Working Conditions	26,268
17.203	Labor Certification for Alien Workers	20,001
17.207	Employment Service	3,185,224
17.225	Unemployment Insurance	115,851,118
17.235	Senior Community Service Employment Program	353,453
17.245	Trade Adjustment Assistance - Workers	491,655
17.246	Employment and Training Assistance - Dislocated Workers	361,448
17.249	Employment Services and Job Training Pilot - Demonstration and Research	1,121,625
17.258	WIA Adult Program	2,632,111
17.259	WIA Youth Activities	3,912,049
17.260	WIA Dislocated Workers	1,501,008
17.261	Employment and Training Administration Pilots, Demonstrations and Research Projects	337,500
17.503	Occupational Safety and Health - State Program	453,595
17.504	Consultation Agreements	390,787
17.600	Mine Health and Safety Grants	89,561
17.801	Disabled Veterans' Outreach Program (DVOP)	130,136
17.804	Local Veterans' Employment Representative Program	291,411
		<hr/> 131,548,569
	<u>U.S. Department of State</u>	
19.999	Help America Vote Act Grant	<hr/> 10,413
	<u>U.S. Department of Transportation</u>	
20.005	Boating Safety Financial Assistance	423,518
20.106	Airport Improvement Program	292,176
20.205	Highway Planning and Construction	116,705,101
20.219	Recreational Trails Program	577,560
20.312	High Speed Ground Transportation - Next Generation High Speed Rail Program	116,592
20.500	Federal Transit - Capital Investment Grants	2,119,352
20.505	Federal Transit - Metropolitan Planning Grants	238,835
20.507	Federal Transit - Formula Grants	1,555,628
20.509	Formula Grants for Other Than Urbanized Areas	3,142,741
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	1,647,057
20.514	Transit Planning and Research	762,470
20.515	State Planning and Research	17,901
20.600	State and Community Highway Safety	2,884,304
20.700	Pipeline Safety	68,333
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	99,826
20.999	Fatal Accident Reporting System	23,618
20.999	Graduated Licensing System	4,200
		<hr/> 130,679,212

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

CFDA Number	Federal Agency/Program Title	Expenditures
	<u>U.S. Department of the Treasury</u>	
21.999	Bordergap	\$ 18,315
	<u>U.S. Equal Employment Opportunity Commission</u>	
30.002	Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	62,400
	<u>National Foundation on the Arts and the Humanities</u>	
45.310	State Library Program	773,730
45.312	Institute of Museum and Library Services - National Leadership Grant	174,836
		948,566
	<u>National Science Foundation</u>	
47.076	Education and Human Resources	530,550
	<u>U.S. Department of Veterans Affairs</u>	
64.124	All - Volunteer Force Educational Assistance	43,349
	<u>U.S. Environmental Protection Agency</u>	
66.032	State Indoor Radon Grants	113,543
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air	167,145
66.454	Water Quality Management Planning	99,527
66.458	Capitalization Grants for Clean Water State Revolving Funds	8,133,235
66.461	Wetland Program Grants	18,095
66.463	Water Quality Cooperative Agreements	16,781
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	26,123
66.468	Capitalization Grants for Drinking Water State Revolving Funds	8,713,045
66.470	Hardship Grants Program for Rural Communities	12,633
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	143,304
66.474	Water Protection Grants to the States	2,475
66.500	Environmental Protection - Consolidated Research	113,216
66.605	Performance Partnership Grants	6,233,402
66.606	Surveys, Studies, Investigations and Special Purpose Grants	349,463
66.608	Environmental Information Exchange Network Grant Program	3,993
66.701	Toxic Substance Compliance Monitoring Cooperative Agreements	19,503
66.707	TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	147,528
66.713	State and Tribal Environmental Justice	10,779
66.802	Superfund State, Political Subdivision and Indian Tribe Site-Specific Cooperative Agreements	131,175
66.804	State and Tribal Underground Storage Tanks Program	5,518
66.805	Leaking Underground Storage Tank Trust Fund	591,548
66.809	Superfund State and Indian Tribe Care Program Cooperative Agreements	198,957
66.811	Brownfields Pilots Cooperative Agreement	42,507
		25,293,495

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003

CFDA Number	Federal Agency/Program Title	Expenditures
<u>Federal Emergency Management Agency</u>		
81.039	National Energy Information Center	\$ 3,081
81.041	State Energy Program	762,190
81.042	Weatherization Assistance for Low - Income Persons	1,349,242
81.079	Regional Biomass Energy Programs	74,861
83.009	National Fire Academy - Training Assistance	89,524
83.012	Hazardous Materials Exercise Assistance Program	10,000
83.105	Community Assistance Program - State Support Services Element (CAP - SSSE)	61,273
83.528	Individual and Family Grants (FEMA)	104,579
83.536	Flood Mitigation Assistance	42,439
83.544	Public Assistance Grants	1,006,955
83.550	National Dam Safety Program	25,214
83.552	Emergency Management Performance Grants	909,098
83.557	Pre-Disaster Mitigation	71,391
83.562	Supplemental State and Local All Hazards Emergency Operations Planning Grant	2,322
83.563	Emergency Operations Center Self Assessment	1,162
		<hr/> 4,513,331
<u>U.S. Department of Education</u>		
84.002	Adult Education - State Grant Program	1,115,567
84.010	Title I Grants to Local Educational Agencies	20,837,231
84.011	Migrant Education - State Grant Program	525,644
84.013	Title I Program for Neglected and Delinquent Children	320,526
84.027	Special Education - Grants to States	14,575,466
84.048	Vocational Education - Basic Grants to States	4,253,420
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	8,064,575
84.169	Independent Living - State Grants	224,592
84.173	Special Education - Preschool Grants	881,511
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	303,572
84.181	Special Education - Grants for Infants and Families with Disabilities	2,858,753
84.184	Safe and Drug-Free Schools and Communities - National Programs	139,336
84.185	Byrd Honors Scholarships	85,500
84.186	Safe and Drug-Free Schools and Communities - State Grants	2,090,565
84.187	Supported Employment Services for Individuals with Severe Disabilities	304,184
84.194	Bilingual Education Support Services	28,724
84.196	Education for Homeless Children and Youth	154,795
84.213	Even Start - State Educational Agencies	1,093,256
84.215	Fund for the Improvement of Education	1,471,779
84.216	Capital Expenses	2,532
84.224	Assistive Technology	419,549
84.235	Rehabilitation Services Demonstration and Training	522,202
84.243	Tech-Prep Education	301,482
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	34,645
84.276	Goals 2000 - State and Local Education Systemic Improvement Grants	275,476

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Department of Education</u>		
84.281	Eisenhower Professional Development State Grants	\$ 856,749
84.287	Twenty-First Century Community Learning Centers	410,159
84.298	Innovative Education Program Strategies	1,660,236
84.314	Even Start - Statewide Family Literacy Program	143,071
84.318	Education Technology State Grants	2,759,919
84.323	Special Education - State Program Improvement Grants for Children with Disabilities	765,928
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children	8,454
84.330	Advanced Placement Program	133,525
84.332	Comprehensive School Reform Demonstration	179,704
84.336	Teacher Quality Enhancement Grants	995,091
84.338	Reading Excellence	86,529
84.340	Class Size Reduction	1,070,039
84.348	Title I Accountability Grants	200,254
84.352	School Renovation Grants	1,308,298
84.365	English Language Acquisition Grants	230,435
84.367	Improving Teacher Quality State Grants	9,647,086
84.369	Grants for State Assessments and Related Activities	1,496,268
		<hr/> 82,836,627 <hr/>
<u>U.S. Department of Health and Human Services</u>		
93.003	Public Health and Social Services Emergency Fund	270,318
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	182,885
93.041	Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect and Exploitation	25,300
93.042	Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	80,456
93.043	Special Programs for the Aging-Title III, Part D - Disease Prevention and Health Promotion Services	139,269
93.044	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	1,910,916
93.045	Special Programs for the Aging - Title III, Part C - Nutrition Services	2,916,720
93.048	Special Programs for the Aging - Title IV - and Title II - Discretionary Projects	711,651
93.052	National Family Caregiver Support Program	679,958
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	1,111,381
93.110	Maternal and Child Health Federal Consolidated Programs	270,436
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	98,889
93.127	Emergency Medical Services for Children	155,211
93.130	Primary Care Services - Resource Coordination and Development	115,268
93.136	Injury Prevention and Control Research and State and Community Based Programs	251,280
93.150	Projects for Assistance in Transition from Homelessness (PATH)	306,478
93.184	Disabilities Prevention	162,867

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

CFDA Number	Federal Agency/Program Title	Expenditures
	<u>U.S. Department of Health and Human Services</u>	
93.197	Childhood Lead Poisoning Prevention Projects-State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	\$ 294,395
93.217	Family Planning - Services	1,022,900
93.230	Consolidated Knowledge Development and Application (KD&A) Program	1,139,326
93.234	Traumatic Brain Injury - State Demonstration Grant Program	67,417
93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancements	1,144
93.239	Policy Research and Evaluation Grants	18,235
93.241	State Rural Hospital Flexibility Program	312,191
93.251	Universal Newborn Hearing Screening	66,022
93.256	State Planning Grant - Health Care Access for the Uninsured	41,631
93.259	Rural Access to Emergency Devices Grant	3,647
93.268	Immunization Grants	1,566,903
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	8,010,565
93.301	Small Rural Hospital Improvement Grants	50,277
93.556	Promoting Safe and Stable Families	547,185
93.558	Temporary Assistance for Needy Families	37,900,736
93.563	Child Support Enforcement	6,157,335
93.566	Refugee and Entrant Assistance - State Administered Programs	358,982
93.568	Low-Income Home Energy Assistance	12,436,265
93.569	Community Services Block Grant	3,820,735
93.575	Child Care and Development Block Grant	14,278,356
93.576	Refugee and Entrant Assistance - Discretionary Grants	128,355
93.583	Refugee and Entrant Assistance - Wilson/Fish Program	170,746
93.586	State Court Improvement Program	99,950
93.590	Community-Based Family Resource and Support Grants	261,195
93.595	Welfare Reform Research, Evaluations and National Studies	6,696
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	7,021,304
93.597	Grants to States for Access and Visitation Programs	99,492
93.600	Head Start	173,090
93.630	Developmental Disabilities Basic Support and Advocacy Grants	328,826
93.631	Developmental Disabilities Projects of National Significance	87,809
93.643	Children's Justice Grants to States	144,106
93.645	Child Welfare Services - State Grants	704,639
93.658	Foster Care - Title IV-E	11,328,682
93.659	Adoption Assistance	6,824,180
93.667	Social Services Block Grant	8,379,029
93.669	Child Abuse and Neglect State Grants	119,931
93.671	Shelters - Grants to States and Indian Tribes	719,407
93.674	Chafee Foster Care Independent Living	531,790
93.767	State Children's Insurance Program	2,802,179
93.768	Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	537,641

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003

CFDA Number	Federal Agency/Program Title	Expenditures
	<u>U.S. Department of Health and Human Services</u>	
93.775	State Medicaid Fraud Control Units	\$ 541,420
93.777	State Survey and Certification of Health Care Providers and Suppliers	951,321
93.778	Medical Assistance Program	477,075,208
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	453,591
93.913	Grants to States for Operation of Offices of Rural Health	176,366
93.917	HIV Care Formula Grants	953,281
93.919	Cooperative Agreements for State - Based Comprehensive Breast and Cervical Cancer Early Detection Programs	279,618
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV	680,125
93.940	HIV Prevention Activities - Health Department Based	1,509,528
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	68,724
93.945	Assistance Programs for Chronic Disease Prevention and Control	115,344
93.958	Block Grants for Community Mental Health Services	752,444
93.959	Block Grants for Prevention and Treatment of Substance Abuse	4,868,869
93.977	Preventive Health Services - Sexually Transmitted Disease Control Grants	196,691
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	272,370
93.991	Preventive Health and Health Services Block Grant	406,489
93.994	Maternal and Child Health Services Block Grant to the States	1,558,900
93.999	ADAP Data Collection	36,087
93.999	Needs Assessment Prevention Contract	65,849
94.003	State Commissions	103,844
94.004	Learn and Serve America - School and Community Based Programs	53,536
94.006	AmeriCorps	1,215,542
94.007	Planning and Program Development Grants	64,700
94.009	Training and Technical Assistance	85,983
94.013	Volunteers in Service to America	20,000
		<hr/> 630,458,407
	<u>Social Security Administration</u>	
96.001	Social Security - Disability Insurance	2,954,522
96.008	Social Security Benefits, Planning, Assistance and Outreach Programs	592,522
		<hr/> 3,547,044
	<u>U.S. Department of Homeland Security</u>	
97.037	Public Assistance Grants	360,165
97.039	Hazard Mitigation Grants	297,477
		<hr/> 657,642
	Total Monetary Federal Financial Assistance Expended	<hr/> 1,119,225,134 <hr/>

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003

<u>CFDA Number</u>	<u>Federal Agency/Program Title</u>	<u>Expenditures</u>
	<u>Non-Monetary Awards</u>	
10.555	National School Lunch Program - Commodities	\$ 1,707,613
10.558	Child and Adult Care Food Program - Commodities	14,149
10.569	Emergency Food Assistance Program (Food Commodities)	1,157,323
39.003	Donation of Federal Surplus Property	659,815
93.268	Immunization Grants - Vaccines	<u>2,938,393</u>
	Total Non-Monetary Federal Financial Assistance Expended	<u>6,477,293</u>
	 Total Federal Financial Assistance Expended	 \$ <u><u>1,125,702,427</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Notes to Schedule of Expenditures of Federal Awards
June 30, 2003

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of the State of Vermont are set forth below:

(a) *Single Audit Reporting Entity*

For purposes of complying with The Single Audit Act Amendments of 1996, the State of Vermont (the "State") includes all entities that are considered part of the primary government, as described in the basic financial statements as of and for the year ended June 30, 2003. The Schedule of Expenditures of Federal Awards (the "Schedule") does not include component units identified in the notes to the basic financial statements.

(b) *Basis of Presentation*

The information in the accompanying Schedule of Expenditures of Federal Awards is presented in accordance with Office of Management and Budget OMB Circular A-133.

1. Federal Financial Assistance - Pursuant to the Single Audit Act Amendments of 1996 and OMB Circular A-133, federal financial assistance is defined as assistance that non-federal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, food commodities, direct appropriations or other assistance and, therefore, is reported on the Schedule of Expenditures of Federal Awards. Federal financial assistance does not include direct federal cash payments to individuals.
2. Type A and Type B Programs - OMB Circular A-133 establishes the levels of expenditures to be used in defining Type A and Type B federal financial assistance programs. Type A programs for the State of Vermont are those programs, or clusters of programs, which equal or exceed \$3,377,107 in expenditures, distributions, or issuances for the fiscal year ended June 30, 2003.

(c) *Basis of Accounting*

The accompanying Schedule of Expenditures of Federal Awards was prepared on the cash basis of accounting as reported on the federal financial reports submitted to the grantor agencies. These reports may not reconcile to the State's central accounting system, which is the primary source for information used to prepare the State's basic financial statements.

(d) *Matching Costs*

Matching costs, i.e. the nonfederal share of certain program costs, are not included in the accompanying Schedule.

STATE OF VERMONT
Notes to Schedule of Expenditures of Federal Awards
June 30, 2003

(2) Categorization of Expenditures

The categorization of expenditures by program included in the Schedule of Expenditures of Federal Awards is based upon the Catalog of Federal Domestic Assistance (CFDA). Changes in the categorization of expenditures occur based upon revisions to the CFDA.

The State cannot readily determine amounts paid to subrecipients. As such, those amounts have not been identified separately on the Schedule of Expenditures of Federal Awards.

(3) Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule which is prepared on the basis explained in Note 1(c).

(4) Unemployment Insurance (CFDA #17.225)

State unemployment tax revenues must be deposited to the Unemployment Trust Fund in the U.S. Treasury and may only be used to pay benefits under the federally approved State unemployment law. The OMB Circular A-133 Compliance Supplement requires that State Unemployment Insurance Funds, as well as federal funds, be included in the total expenditures of CFDA #17.225. Unemployment insurance expenditures are broken out as follows:

State	\$ 104,509,222
Federal	5,379,162
Reed Act Funding	<u>5,962,734</u>
	<u>\$ 115,851,118</u>

(5) Airport Improvement Program (CFDA #20.106)

The State of Vermont receives Federal Aviation Administration (FAA) funds from the U.S. Department of Transportation. The State excludes from its Schedule of Federal Awards FAA funds received on behalf of the City of Burlington, Vermont, because the State does not perform any program responsibilities or oversight of these funds. Rather its sole function is to act as a conduit between the federal awarding agency and Burlington, who owns and operates the airport.

STATE OF VERMONT
Notes to Schedule of Expenditures of Federal Awards
June 30, 2003

(6) Nonmonetary Federal Financial Assistance

The State is the recipient of Federal financial assistance programs that do not result in cash receipts or disbursements. Non-cash awards are included in the Schedule of Expenditures of Federal Awards.

National School Lunch Program - Commodities

The National School Lunch Program assists states in providing a nutritious food service program for low-income children through cash grants and food commodities, such as bread, meat and other commodities. Total federal expenditures included in the Schedule for CFDA #10.555 for commodities, represent the federal government's acquisition value of the food commodities provided to the State.

Child and Adult Food Care Program - Commodities

The Child and Adult Food Care Program assists states through grants-in-aid and other means to initiate and maintain nonprofit food service programs for children, elderly or impaired adults in nonresidential day care facilities and children in emergency shelters. Total federal expenditures included in the Schedule for CFDA #10.558 for commodities, represents the federal government's acquisition value of the food commodities provided to the State.

Emergency Food Assistance Program (Food Commodities)

The Emergency Food Assistance Program helps supplement the diets of low-income Americans, including elderly people, by providing them with emergency food and nutrition assistance at no cost. Under this program, commodity foods are made available by the U.S. Department of Agriculture to States. States provide the food to local agencies that they have selected, usually food banks, which in turn distribute the food to soup kitchens and pantries that directly serve the public. Total federal expenditures included in the Schedule for CFDA #10.569, Emergency Food Assistance Program, represent the federal government's acquisition value of the food commodities provided to the State.

Donation of Federal Surplus Personal Property

The State obtains surplus property from various federal agencies at no cost. The property is then sold by the State to eligible organizations for a nominal service charge. Total federal expenditures included in the Schedule for CFDA #39.003, Donation of Federal Surplus Personal Property, represent the federal government's acquisition value of the federal property sold by the State.

Immunization Grants

To assist States and communities in establishing and maintaining preventive health service programs to immunize individuals against vaccine-preventable diseases, the State provides various clinics throughout the year in an effort to ensure that all residents have been properly immunized. Total federal expenditures included in the Schedule for CFDA #93.268, Immunization Grants, represent the federal government's acquisition value of the vaccines provided to the State.

STATE OF VERMONT
 Schedule of Current Year Findings and Questioned Costs
 For the Year ended June 30, 2003

(1) Summary of Auditors' Results

- (a) The independent auditors' report on the State's basic financial statements expressed an unqualified opinion.
- (b) The audit disclosed eight reportable conditions in internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*. Seven of these reportable conditions were also considered to be material weaknesses.
- (c) No instances of noncompliance considered material to the basic financial statements were disclosed by the audit.
- (d) The audit disclosed 27 reportable conditions in internal control over compliance with requirements applicable to a major federal awards program. All 27 of these reportable conditions were also considered to be material weaknesses.
- (e) The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion, except for Federal Transit Cluster (CFDA #20.500 and #20.507); Formula Grants for Other than Urbanized Areas (CFDA #20.509); Centers for Disease Control and Prevention – Investigations and Technical Assistance (CFDA #93.283); Immunization Grants (CFDA #93.268); Block Grants for Prevention and Treatment of Substance Abuse (CFDA #93.959); and Social Services Block Grant (CFDA #93.667).
- (f) The audit disclosed findings 2003-9 through 2003-46 that are required to be reported by OMB Circular A-133.
- (g) The State's major programs were:

<u>CFDA #</u>	<u>Name of Federal Program</u>
<u>Federal Transit Administration Cluster</u>	
20.500	Capital Investment Grants – Capital Grants
20.507	Formula Grants – Urbanized Area Formula Program
<u>Child Care Development Cluster</u>	
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
<u>Medicaid Cluster</u>	
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2003

<u>CFDA #</u>	<u>Name of Federal Program</u>
<u>Food Stamp Cluster</u>	
10.551	Food Stamps
10.561	State Administrative Matching Grants for Food Stamp Program
<u>WIA Cluster</u>	
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
<u>Other Programs</u>	
16.710	Public Safety Partnership and Community Policing Grants
20.509	Formula Grants for Other than Urbanized Areas
66.458	Capitalization Grants for State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Fund
66.605	Performance Partnership Grants
84.340	Class Size Reduction
84.367	Improving Teacher Quality State Grants
93.268	Immunization Grants
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low Income Home Energy Assistance Program
93.667	Social Services Block Grant
93.959	Block Grants for Prevention and Treatment of Substance Abuse

- (h) A threshold of \$3,377,107 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
- (i) The State did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2003

(2) Relating to Financial Statements Findings Reported in Accordance with *Government Auditing Standards*

Finding 2003 - 1

The State's accounting process is very decentralized and relies heavily on the individual departments and agencies to properly and accurately record activity on a timely basis. However, the Department and the State do not have effective controls in place to ensure that the departments and agencies are discharging their financial accounting and reporting responsibilities. While the Department of Finance and Management is primarily responsible for compiling the State's financial statements, there are no controls in place over the financial reporting process to ensure information in the financial statements is analyzed or accurate. Existing controls are not sufficient to provide for:

- The timely and accurate production of the State's financial statements.
- The effective oversight over the departments/agencies that record financial activity to ensure they are using and reconciling departmental records to VISION.
- Automated compilation and analysis of the financial statement data such that a substantial amount of data needed to prepare the State's financial statements is still compiled manually. In addition to the manual process used to compile the financial statements, the compilation of Federal accounts receivables and the Schedule of Expenditures of Federal Awards is a long manual process subject to errors.
- The Department does not have sufficient "analysis controls" to ensure that the data presented in the State's financial statements is proper and accurate prior to the information being submitted to the State Auditor's Office. Since the State's management is responsible for all amounts presented in the financial reports, it is critical that the State finance officials analyze and understand all information in those reports and not rely on the Auditor to perform the "analysis control" function for the State.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2003

Finding 2003 - 2

The use of VISION throughout the State is not mandated for all departments and agencies in the State. For example,

- BGS and Corrections are the two departments that are able to use the Visions Accounts Receivable module.
- The Department of Public Service does not use the VISION accounts receivable module for transactions to bill costs back to utilities. It uses an access program to input manually invoices and receipts. Testing revealed a number of errors. A listing for \$29,321.67 was received before year-end, representing 22% of total rate-case billings receivable at June 30, 2003 of \$134,063.63. In October 2004, \$41,656.56, or 31%, remained unpaid. Aging of the accounts receivable balance was:

1999	\$ 4,612.89
2000	6,808.60
2001	3,678.05
2002	<u>26,557.02</u>
	<u>\$ 41,656.56</u>

- Several departments and agencies including Highway Garage and Liquor Control do not use VISION, but instead use other automated accounting systems. Liquor Control variances between its system and VISION included \$887,420.79 for sales and service charges, \$36,987 for other operating revenue, and \$211,956.93 for stores and agency expenses, plus a negative \$120,035.12 for expenditures.

The use of accounting systems other than the Statewide system can result in confusion, duplicate sets of accounting records and other financial reporting errors. It also requires that a reconciliation be completed between these systems and VISION, which currently is done on a voluntary basis by departments.

Finding 2003 - 3

The State of Vermont did not meet the March 31, 2004 State and Federal reporting deadline for submitting its Comprehensive Annual Financial Report or Federal Single Audit Report for the fiscal year ending June 30, 2003.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2003

Finding 2003 - 4

The Agency of Transportation uses an internal accounting system, STARS, to track and monitor expenditures on a project basis. The FY 2003 reconciliation of the STARS to VISION system was not completed until August 2004, nearly 14 months following the close of FY 2003. This significant delay in reconciling STARS to VISION contributed to the delay in the timely and accurate production of the State's financial statements for FY 2003.

Finding 2003 - 5

Transportation also uses STARS for determining reimbursement of Federally funded projects. During the 2002 audit, the receivable recorded on the State financial statements required a reduction of \$14 million because the amount recorded could not be adequately supported. In the fiscal 2003 audit, the reduction of the receivable to deferred income for the lack of supporting documentation was \$13 million. The inadequate controls over the federal receivable/reimbursement process contributes to the excessive delay in financial reporting and may be costing the State money by not requesting appropriate amounts of reimbursements.

Finding 2003 - 6

The Department of Finance and Management continues to present its budgetary results on a cash-received and modified-cash paid basis. (In addition to cash paid, the State accrues certain expenditures on a budgetary basis.) The compilation of the budget numbers continues to be a manual process and the relationship between the budget in VISION and the authorizations passed by the Legislature is not clearly delineated. There continues to be little accountability within the State to match services provided to the proper fiscal year. While some invoices that have been entered into the VISION system have been accrued for, the State does not fully use the encumbrance process to restrict budgetary spending. This can lead to manipulation of the budgetary process by either: 1) holding invoices at year end and paying them out of the next year's budget thereby causing a mismatch between when a service is budgeted and when it is actually paid for; or 2) accelerating the payment of invoices to an earlier fiscal year to expend any remaining appropriation before a year closes. Both situations, if left unattended, can result in budgetary manipulation that will not be detected by personnel within the State.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2003

Finding 2003 - 7

While we have seen improvements in the internal control at the Tax Department and Treasurer's Office, it has become apparent that the internal control structure throughout much of the State has deteriorated over the past several years. Personnel reorganizations, lack of training and cross-training, lack of succession planning, lack of state-wide accounting/financial reporting policies and frustration with the VISION system have contributed to control breakdowns in key departments and agencies. This has resulted in issues such as material weaknesses in internal controls being reported but not being effectively corrected, and federal programs being reaudited every year due to material compliance findings or control weaknesses, as well as pervasive issues such as lack of routine approval of invoices and reconciliation of accounts. Examples are plentiful.

- At Buildings and General Services, examination showed 31 invoices totaling \$420,756.85 with no evidence of approval on the original invoices. Such signatures would provide support and approval for associated transactions recorded in VISION. There is no BGS policy requiring that original invoices be signature approved.
- Testing within the Agency of Human Services – departments of Prevention, Assistance and Health Access (PATH), Health, Corrections, Developmental and Mental Health Service (DDMHS)s, Social and Rehabilitation Services (SRS), the agency's Central Office – revealed signature-approval problems.
- Failure to require signed approval of transactions also surfaced on original invoices in the Department of Education, on purchase orders in the Secretary of State's Office, on General Education expenditures in the Tax Department, invoices at the Department of Libraries, and at Vermont Life Magazine.
- There is no statewide requirement from Finance and Management for written approval (signature) on purchase orders.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2003

Finding 2003 - 8

For several years, the Treasurer's Office has experienced delays in reconciling the State's books with its monthly bank statements, thereby exposing the State to risk that intentional or unintentional errors might occur and not be detected by Treasury personnel in a timely fashion. To help alleviate this situation, the Treasurer's Office, in fiscal 2002, enlisted outside help to reconcile the bank accounts through March, 2002. While this process helped to identify differences between the State's books and the bank statements, it did not help to resolve those items or help to correct the internal control deficiencies associated with the reconciliation process.

The delay in reconciling the State's cash accounts continued throughout the first half of fiscal 2003 and, during this time, continued to expose the State to unnecessary risk. However, beginning in January 2003, the Office made a concerted effort to ensure that all delinquent account reconciliations were promptly completed and that current reconciliations were prepared on a more timely basis. This effort included identifying book to bank differences more quickly and working with other State agencies to resolve these differences. As a result, all but one of the monthly bank reconciliations as of June 30, 2003 had been completed by September 1, 2003. The final reconciliation was completed on October 17, 2003 and the reconciliation process now is performed 30 to 45 days after the monthly close of VISION.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2003

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2003 - 9

Finance and Management

All Federal Programs

Requirement

A pass-through entity shall perform the following for Federal awards it makes: (1) Identify Federal awards made by informing each subrecipient of CFDA title, award name and number, award year, if the award is R&D, and name of Federal agency; (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity; (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved; (4) ensure that subrecipients expending \$300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year; (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action; (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records; and (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part. (OMB Circular A-133.400(d))

Finding

In order to help achieve the objects of various Federal award programs, the State of Vermont grants funds to third party subrecipients to carry out specific duties as allowed under federal regulations. Once a subrecipient relationship is created, the State has a responsibility to ensure that the subrecipient is made aware that they have been awarded federal funds through a grant agreement and to determine whether or not the subrecipient has spent the awarded funds in accordance with Federal regulations by implementing and performing procedures to monitor the grant activities of the subrecipient. During our testwork over subrecipient monitoring throughout the State, we noted the following:

1. The State of Vermont does not have a system in place to help Departments identify what a subrecipient is. As a result, many Departments are unaware of the fact that they have even entered into subrecipient relationships and are therefore not properly monitoring the funds that are awarded as required by OMB. As there are no guidelines, subrecipient grant agreements do not contain the proper identifying information as required by OMB and the subrecipient is unaware that they have been awarded federal funds.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2003

Finding 2003 – 9, Continued

2. The State of Vermont does not have a system in place to help Departments track subrecipient grant payments. As a result, Departments' are unaware that a single subrecipient may be receiving multiple awards from different State Departments, and subrecipient audit reports are not always obtained. This information would assist Department's with meeting the monitoring requirement to obtain, review and issue management decisions concerning subrecipient audit reports. It would also eliminate any duplicate work performed across the State concerning the review of subrecipient audit reports as currently multiple Departments are reviewing and following up on the same audit reports on an annual basis.
3. There are no policies and procedures in place to assist Department's in the review of subrecipient audit reports. As a result, the review of subrecipient audit reports for types of opinions, compliance issues, internal control issues and agreement of financial data are not always performed.
4. The State of Vermont does not have policies or procedures to assist Departments in developing subrecipient monitoring tools for monitoring a subrecipient during the award period. As a result, many Departments do not have a mechanism in place to monitor subrecipients to ensure that the awarded funds are being spent in accordance with the written grant agreement. Furthermore, subrecipients receiving less than \$300,000 in assistance are frequently not monitored since they fall below the required audit threshold.

The lack of formal procedures for identifying, tracking or monitoring subrecipients has been noted in previous audit years, with the most recent inclusion in the single audit report for the period ending June 30, 2002. Prior to the year ending June 30, 2002, the State of Vermont's financial accounting system, FMIS, was incapable of capturing the type of data that would enable the State to track subrecipient grant payments. The Department of Finance and Management indicated that the installation of the State's new financial accounting system would provide the means to track the movement of federal funds by CFDA numbers through the State system and non-state entities. On July 1, 2001, the State implemented a new accounting system, VISION. Under the VISION system, the State of Vermont has not been able to generate the necessary data to identify, track or monitor subrecipients. As a result, this compliance issue continues to remain unresolved.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department implement the necessary procedures to ensure that all subrecipient grant payments are identifiable within the financial accounting system and are monitored in accordance with the above stated requirements.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2003

Finding 2003-10

Finance and Management

All Federal Programs

Requirement

The auditee shall: (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity; and (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with OMB Circular A-133 section .310.

Finding

During the our audit of the State of Vermont's federal expenditures, we noted that the State does not have a system in place for compiling the federal expenditure data needed to prepare the Schedule of Expenditures of Federal Awards (the "Schedule"). Prior to July 1, 2001, the State's Financial Management Information System (FMIS) was unable to record the information that would enable the State to prepare the Schedule. As a result, the information was collected directly from Departments throughout the State and manually compiled and reconciled to the FMIS System. In order to correct this deficiency as noted in Finding 1997-8, the Department was in the process of developing and implementing a new financial management system that would allow the State to generate the needed information to identify Federal awards and prepare the Schedule. The scheduled completion date for the corrective action plan was May 2002 as shown in the Summary Schedule of Prior Audit Findings for the period ending June 30, 2001.

On July 1, 2001, the Department implemented a new financial management system, VISION. During our audit of the State's federal expenditures for the period ending June 30, 2003, we noted that the VISION system does not identify the following:

1. CFDA title and number;
2. Award number and year;
3. Name of Federal agency; and
4. Name of the pass-through entity.

In addition, the VISION system does not capture the cost associated with non-cash expenditures received as federal awards, including immunization grants and food commodities.

As a result, Finance and Management was unable to prepare the Schedule of Expenditures of Federal Awards from or reconcile the Schedule to the VISION system.

This finding is considered to be a material weakness.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2003

Finding 2003 – 10, Continued

Questioned Costs

Not determinable.

Recommendation

We recommend that Finance and Management implement the necessary action to ensure that all federal awards are properly accounted for and identified within the financial accounting system in order to ensure that all expenditures are properly reported within the Schedule of Expenditures of Federal Awards and that the Schedule is supported or reconciled to the State's accounting system.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2003

Finding 2003 - 11

Agency of Transportation

Federal Transit Administration Cluster:

Capital Investment Grants—Capital Grants (CFDA #20.500)

Formula Grants—Urbanized Area Formula Program (CFDA #20.507)

Requirement

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Finding

The Agency grants federal funds to the Vermont Transportation Authority (VTA). VTA is a quasi-state agency, which was established by the Vermont legislature as an instrumentality of the State and is its own separate entity. VTA is primarily responsible for the operation of the Charlotte – Burlington commuter rail project (Champlain Flyer). VTA in turn contracted with Vermont Railway (VTR) to operate the trains that actually run on the commuter rail line.

Funding for the Charlotte – Burlington commuter rail project was paid for under two grants during fiscal year 2003. The first grant is an operating grant, in which the State grants funds to VTA to support the daily operations of VTA. The second grant was to fund the capital development of the Charlotte – Burlington commuter rail.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2003

Finding 2003 – 11, Continued

During our testwork over the monitoring of the grants, we noted the following:

Operating Grant VT 90-X045-00:

1. The General Manger of VTA is an employee of the State and all of his salary costs as the General Manger of VTA are paid under the State's payroll system which also allows the General Manager to participate in the State's retirement system. This appears to be a conflict of interest.
2. The General Manager of VTA has the sole responsibility for monitoring all invoices paid under the operating grant. In addition to reviewing invoices, the General Manager also conducts periodic site visits at VTR to help ensure that VTR's records agree to the billings. We have noted through conversations with the General Manager that the site visit reviews are not formally documented and are therefore unverifiable. Furthermore, the Agency itself does not review any invoices submitted for payment by VTA to ensure that the costs are allowable and reasonable based on the grant agreement.

Capital Grant VT 90-X043-00:

3. VTA's contract with VTR did not address whether VTR was suspended or debarred from receiving federal awards and certification was not obtained.

This finding is considered to be a material weakness.

Questioned Costs

\$1,389,416 – represents the fiscal year 2003 costs paid under the operating grant.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to ensure that monitoring procedures are implemented over the VTA grants to ensure compliance with federal and grant requirements.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2003

Finding 2003-12

Agency of Transportation

Federal Transit Administration Cluster:

Capital Investment Grants—Capital Grants (CFDA #20.500)

Formula Grants—Urbanized Area Formula Program (CFDA #20.507)

Requirement

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Finding

The Agency grants funds to various transit districts throughout the State and to the Chittenden County Metropolitan Planning Organization (CCMPO). As part of the subrecipient monitoring process, the Agency obtains and reviews the grantee's financial statements and single audit report in accordance with OMB Circular A-133. During our review of the subrecipient monitoring process, we noted the following:

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Finding 2003-12, Continued

1. During our review of the CCMPO's September 30, 2002 single audit report, we noted that the funds granted under the Federal Transit Administration Cluster were not identified in the Schedule of Federal Expenditures. In addition, the financial statement audit contained a modified opinion. Per review of the file documentation, we were unable to verify that the Agency had followed up on either matter.
2. For one out of the two additional subrecipients selected for testwork, we noted that the subrecipient had not issued an audit report since June 30, 2000 due to unpaid audit fees. Per review of the file documentation, we were unable to find any additional documentation to support that the Agency had conducted additional monitoring procedures over the subrecipient.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to help ensure that monitoring procedures are performed over subrecipient grants including obtaining and reviewing audit reports as required by OMB Circular A-133.

STATE OF VERMONT
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Finding 2003-13

Agency of Transportation

Federal Transit Administration Cluster:

Capital Investment Grants—Capital Grants (CFDA #20.500)

Formula Grants—Urbanized Area Formula Program (CFDA #20.507)

Requirement

The Federal Transit Administration (FTA) is required to perform reviews and evaluations of 49 USC 5307 grant activities at least every three years. These reviews are conducted with specific reference to compliance with statutory and administrative requirements and consistency of actual program activities with (1) the approved program of projects, and (2) the planning process required under 49 USC 5303.

Finding

On July 2, 2003, the Vermont Agency of Transportation (the “Agency”) was issued a copy of the fiscal year 2003 triennial review conducted by the FTA. During the triennial review, the FTA identified deficiencies in the Agency’s compliance with FTA requirements. Specifically, the following areas of non-compliance and deficiencies were noted:

1. Deficiencies related to program management requirements including inadequate monitoring of subrecipients and an incomplete and out of date state management plan.
2. Deficiencies with grant administration requirements, as milestones are not being properly updated in TEAM (the Federal Grants Management Program), grants have remained inactive for extended periods of time, and grants have not been closed in a timely manner. This is a repeat finding from the prior triennial review.
3. Deficiencies in financial maintenance requirements, as the Agency does not have procedures to adequately monitor subrecipients’ maintenance of FTA-funded equipment and/or facilities. This is a repeat finding from the prior triennial review.
4. Deficiencies in procurement requirements, as the Agency’s procurement manual showed that the Agency has procedures for conducting a non-competitive award. However, the Agency did not follow these procedures when conducting two rail station construction projects. In addition, the Agency could not demonstrate that it had obtained the original solicitation and ensured that it contained an assignability clause or met FTA requirements.

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Finding 2003-13, Continued

5. Deficiencies in Buy America requirements, as the Agency did not have properly completed pre-award and post-delivery certifications on file for buses that were purchased through a procurement agreement established by the State of New York. In addition, the Agency did not verify that the State of New York had completed the required pre-award Buy America audit and filed the required certifications as part of its original procurement. This is a repeat finding from the prior triennial review.
6. Deficiencies in Americans with Disabilities Act (ADA) requirements, as the Agency does not ensure its providers of fixed-route service, both public and private providers, comply with ADA service provisions.
7. Deficiencies in civil rights requirements, as the Agency does not maintain for its subrecipients required Title VI reporting information nor keep a record of approved and rejected Section 5310 funding requests that identifies applicants that are minority organizations or that provide assistance to minority communities. In addition, the Agency does not identify and assist Section 5310 providers, including those that are minority organizations or serve minority populations, in applying for assistance.
8. Deficiencies in Half Fare requirements, as the Champlain Flyer's Fee Schedules do not have any information describing a policy by which certain riders (i.e. senior citizens & persons with disabilities) are permitted to ride free of charge.
9. Deficiencies in National Transit Database requirements, as the Agency has not applied for an exemption for its commuter rail service during the review period.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to help ensure that the noted deficiencies are corrected to ensure compliance with the applicable Federal requirements.

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Finding 2003 - 14

Agency of Transportation

Federal Transit Administration Cluster:

Capital Investment Grants – Capital Grants (CFDA #20.500)

Formula Grants – Urbanized Area Formula Program (CFDA #20.507)

Requirement

The following reports are required to be filed:

1. Financial Status Report (FSR) (SF-269 (OMB No. 0348-0039) or SF-269A (OMB No. 0348-0038)). Recipients use the FSR to report the status of funds for all non-construction projects and for construction projects when the FSR is required in lieu of the SF-271.
2. Report of DBE Awards and Commitments (OMB No. 2105-0510) - Based on the level of FTA funding, exclusive of transit vehicle purchases, recipients are required to implement a DBE program. To monitor the progress of the DBE program, the recipient is required to submit quarterly reports based on a record-keeping system (49 CFR section 26.11).

Finding

During our testwork over federal reporting we noted the following:

- A. The data used to prepare the federal reports is obtained directly from the STARS system (the Agency's federally approved system for tracking project costs), which has not been reconciled to the VISION system (the State's centralized accounting system) as of June 30, 2003, and therefore we were unable to test the completeness of the data.
- B. For one out of five FSR reports selected for testwork, the federal matching percentage was 80%. Per review of the data contained on the report, total outlays for the period were \$1,091,803. Of this amount, the reported State share was \$215,327, or 19.7%, and the federal share was \$876,476 or 80.3%, resulting in the State providing an under match of \$3,034.
- C. Per review of the FSR reports, we were unable to find any evidence that the reports had been reviewed for accuracy prior to submission.
- D. Per review of DBE reports and discussion with the Agency, although the reports were properly filed, we were unable to obtain any supporting documentation to verify the accuracy of the data contained within the reports.

This finding is considered to be a material weakness.

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Finding 2003 – 14, Continued

Questioned Costs

\$3,034 – the total amount of over reported federal funds.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to ensure the required reports are accurately stated and are in accordance with federal requirements.

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Finding 2003-15

Agency of Transportation

Federal Transit Administration Cluster:

Capital Investment Grants – Capital Grants (CFDA #20.500)

Formula Grants – Urbanized Area Formula Program (CFDA #20.507)

Requirement

To provide reasonable assurance that federal awards are only expended for allowable activities and that the costs of goods and services charged to federal awards are allowable and in accordance with applicable cost principles.

Finding

The Agency contracted with Vermont Railway (VTR) to provide construction services related to the repair and rehabilitation of train tracks and rail bed associated with a section of the track to be used for the commuter rail project. The contract with VTR was entered into on December 20, 1995 and continued through September 30, 1997. During our review of the contract, we noted the following:

- A. Several amendments were made when the original contract expired, with the most recent being a correspondence letter between the Agency and VTR dated April 3, 2000 regarding extension of Project Agreement, which stated “the date for project completion is changed from 30 Sept. 1999 to 31 Dec. 2000”. No agreements have been entered into with VTR for the capital grant subsequent to December 31, 2000.
- B. Under the initial contract and subsequent amendments, the total amount awarded to VTR was \$9,500,000.
- C. As of December 5, 2002, a total of \$12,985,230 had been paid to VTR under the contract. Of this amount, \$10,388,184 was paid using federal funds and \$2,597,046 was paid with state funds.
- D. The \$10,388,184 federal portion exceeded the contract limitation by \$888,184 for the period of January 1, 2001 through December 5, 2002. Although \$757,762 of the overage related to services performed within the contract period, these payments exceeded the maximum contract award.

This finding is considered to be a material weakness.

Questioned Costs

\$888,184 – the federal portion of the overpayment on the contract from January 1, 2001 to December 5, 2002.

STATE OF VERMONT
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Finding 2002-15, Continued

Recommendation

We recommend that the Agency review its policies and procedures over contracting and implement the necessary measures to help ensure that expenditures are allowable and only made on valid contracts.

STATE OF VERMONT
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Finding 2003-16

Agency of Transportation

Formula Grants for Other Than Urbanized Areas (CFDA #20.509)

Requirement

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Finding

The Agency grants funds to local transit districts to provide public transportation services to surrounding areas. Costs incurred under these grants are related to capital acquisition of buses that are used by the transit district to provide the transportation services as well as subsidy payments used to assist in the operating costs incurred by the transit districts. As part of the subrecipient monitoring process, the Agency obtains and reviews the grantee's financial statements and single audit report in accordance with OMB Circular A-133. During our review of the subrecipient monitoring process, we noted the following:

- A. One out of six subrecipients selected for testwork received a disclaimer opinion on the financial statements. Per review of the subrecipients file, there was no follow up with the subrecipient concerning the opinion.

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Finding 2003-16, Continued

- B. One out of six subrecipients selected for testwork did not submit a timely audit report. Per review of the file documentation, we were unable to verify that the Agency performed any procedures to obtain the required report.
- C. One out of six subrecipients selected for testwork contained an audit report with internal control findings. Per review of the subrecipients file, there was no follow up with the subrecipient regarding the matter. Per discussion with the Agency, the amount funded to the subrecipient was less than \$300,000 and additional review was not considered necessary.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to help ensure that all subrecipient audit reports are properly obtained and reviewed in accordance with OMB Circular A-133.

STATE OF VERMONT
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Finding 2003-17

Agency of Transportation

Formula Grants for Other Than Urbanized Areas (CFDA #20.509)

Requirement

The Financial Status Report (FSR) (SF-269 (OMB No. 0348-0039) or SF-269A (OMB No. 0348-0038)) is required to be filed. Recipients use the FSR to report the status of funds for all non-construction projects and for construction projects when the FSR is required in lieu of the SF-271.

Finding

The Agency is required to file the FSR report on a quarterly basis for each federal grant. During our testwork over federal reporting, we noted the following:

- A. The data used to prepare the federal report is obtained directly from the STARS system (the Agency's federally approved system for tracking project costs), which has not been reconciled to the VISION system (the State's centralized accounting system) as of June 30, 2004. As a result we were unable to test the completeness of the data.
- B. One out of three federal reports selected for testwork was not filed in a timely basis.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable

Recommendation

We recommend that the Agency implement the necessary policies and procedures to ensure the required reports are accurately stated and filed in accordance with federal requirements.

STATE OF VERMONT
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Finding 2003-18

Agency of Natural Resources

Capitalization Grants for State Revolving Fund (CFDA #66.458)

Requirement

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Finding

In November of 2001, the Environmental Protection Agency issued a memorandum stating that the Single Audit Act requirements apply to State Revolving Funds. As such, all loan participants are considered to be subrecipients of the State. During our testwork over subrecipient monitoring, we noted the following:

- A. The Department is required to obtain single audit reports, if one was completed, from all loan recipients. During our audit we noted that the Department did not obtain or review any single audit reports for their loan recipients. The Department began incorporating this requirement into all of their new loan agreements and going forward, will be obtaining audits from their subrecipients in order to comply with the compliance requirements. During the period under audit, no letter reminding the loan recipients of the single audit report requirement was prepared and sent.

STATE OF VERMONT
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Finding 2003-18, Continued

- B. For the nine loans selected for testwork, we noted that the loan agreements did not disclose the proper award identification in the face of the loan agreement.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department implement the necessary control policies and procedures to adequately monitor the subrecipients of the grant awards to ensure compliance with OMB Circular A-133. This includes ensuring that all loan agreements adequately disclose the federal award information and that the proper audit reports are obtained and reviewed by the Department.

STATE OF VERMONT
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Finding 2003-19

Agency of Natural Resources

Drinking Water State Revolving Fund (CFDA #66.468)

Requirement

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Finding

In November of 2001, the Environmental Protection Agency issued a memorandum stating that the Single Audit Act requirements apply to State Revolving Funds. As such, all loan participants are considered to be subrecipients of the State. During our testwork over subrecipient monitoring, we noted the following:

- A. The Department is required to obtain single audit reports, if one was completed, from all loan recipients. During our audit we noted that the Department did not obtain or review any single audit reports for their loan recipients. The Department began incorporating this requirement into all of their new loan agreements and going forward, will be obtaining audits from their subrecipients in order to comply with the compliance requirements. During the period under audit, no letter reminding the loan recipients of the single audit report requirement was prepared and sent.

STATE OF VERMONT
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Finding 2003-19, Continued

- B. For the ten loans selected for testwork, we noted that the loan agreements did not disclose the proper award identification in the face of the loan agreement.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department implement the necessary control policies and procedures to adequately monitor the subrecipients of the grant award to help ensure compliance with OMB Circular A-133. This includes ensuring that all loan agreements adequately disclose the federal award information and that the proper audit reports are obtained and reviewed by the Department.

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Finding 2003-20

Department of Education

Class Size Reduction (CFDA #84.340)

Requirement

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Finding

In accordance with federal guidelines, the Department of Education (the "Department") distributes 100% of the Class Size Reduction funds to eligible Local Education Agencies ("LEAs") throughout the State of Vermont (Pub. L. No. 106-113, Section 310(b)(1)). The Local Education Agencies apply to the Department for Class Size Reduction funds as part of their State Title VI application process and during fiscal 2003, 62 entities were awarded funds for this program.

The LEAs are required to comply with the following federal requirements:

- Local Education Agencies must use Class Size Reduction funds in accordance with their approved grant application to recruit, hire (including payment of salaries and benefits), and train fully qualified classroom teachers in order to reduce the class size in the targeted grades or subjects (Pub. L. No. 106-113, Section 310).

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Finding 2003-20, Continued

- LEAs must use a minimum of 72% of their Class Size Reduction funds to recruit, hire, and fully train qualified classroom teachers in order to reduce the class size in the targeted grades or subjects. A maximum of 25% of the funds can be used for professional development and teacher testing activities and no more than 3% of the funds may be used for administrative costs (Pub. L. No. 106-113, Section 310(c)(2)(B) and 310(f)).
- LEAs that use Title 1 funds to upgrade the entire educational program of a high poverty school may combine the Title 1 funds with funds from other federal and state and local sources (including Class-Size Reduction funds) to stimulate comprehensive reform of the entire instructional program provided to children, rather than operating separate and fragmented add on programs (20 USC 6314 and 6396(b); 34 CFR sections 76.731, 200.8; 60 FR 49174).

The Department is required to monitor each LEA to determine whether the Class Size Reduction funds are being used in accordance with federal regulations. All LEAs are required to submit annual audited financial statements and single audit reports, if applicable, to the Department for their review in addition to submitting monthly financial status reports indicating expenditures incurred for the month.

During our testwork over subrecipient monitoring, we noted that although the Department received and reviewed the audited financial statements and single audit reports for the LEA's, they have not implemented any additional monitoring procedures to verify that the LEA actually spent their grant on allowable activities and that they complied with federal compliance requirements. As not all LEA's have a single audit and since the Class Size Reduction program is not always a major program for those LEAs that do have a single audit, it is necessary that the Department have additional monitoring procedures in place.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review its existing subrecipient monitoring policies and procedures and implement the necessary measures to adequately monitor the Class Size Reduction funds to help ensure that all LEA expenditures are allowable and that the LEAs are complying with federal regulations.

STATE OF VERMONT
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Finding 2003-21

Department of Education

Improving Teacher Quality (CFDA #84.367)

Requirement

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Finding

In accordance with federal guidelines, the Department of Education (the "Department") distributes 98% of the Improving Teacher Quality funds to eligible Local Education Agencies ("LEAs") throughout the State of Vermont (Pub. L. No. 106-113, Section 310(b)(1)). The Local Education Agencies apply to the Department for funding under this program as part of their State Title IIA application process and during fiscal 2003, 62 entities were awarded funds for this program.

Consistent with the LEA's assessment of need for professional development and hiring, LEAs may use funds for a broad span of activities designed to improve teacher quality that are identified in Section 2123(a) of the ESEA. Examples of allowable activities include:

- Providing professional development to teachers, and where appropriate to principals and paraprofessionals in content knowledge and classroom practice.

STATE OF VERMONT
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Finding 2003-21, Continued

- Developing and implementing a wide variety of strategies and activities to recruit, hire and retain highly qualified teachers and principals.
- Developing and implementing initiatives to promote retention of highly qualified teachers and principals.
- Carrying out professional development programs to assist principals and superintendents in becoming outstanding managers and educational leaders.
- Carrying out teacher advancement initiatives that promote professional growth and emphasize multiple career paths and pay differentiation and establish programs and activities related to exemplary teachers.
- To hire teachers to reduce class size (Sections 2101 and 2123(a) of the ESEA (20 USC 6601 and 6623(a)).

The Department is required to monitor each LEA to determine whether the Improving Teacher Quality funds are being used in accordance with federal regulations. All LEAs are required to submit annual audited financial statements and single audit reports, if applicable, to the Department for their review in addition to submitting monthly financial status reports indicating expenditures incurred for the month. During fiscal year 2003, the Department performed six onsite visits to determine the programs implemented by the LEA utilizing Improving Teacher Quality funds. During our testwork over subrecipient monitoring, we noted the following:

- A. We reviewed the six onsite visits performed by the Department and noted that there was no documentation to support that the funds granted to the LEA were used for allowable purposes.
- B. Independent schools are provided the opportunity to apply for federal funding. All applications to receive federal funding contain forms that are applicable to independent schools in order for the school to apply for funding. During our testwork over the Department's awarding process, we noted that one out of the ten subrecipient applications reviewed for testwork did not contain the appropriate independent school forms. As a result, the potential exists that an independent school in that district was not made aware of federal funding that was available to them.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

STATE OF VERMONT
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Finding 2003-21, Continued

Recommendation

We recommend that the Department review its existing subrecipient monitoring policies and procedures and implement the necessary measures to adequately monitor the Improving Teacher Quality funds to help ensure that all LEA expenditures are allowable and that the LEAs are complying with federal regulations.

STATE OF VERMONT
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Finding 2003-22

Agency of Human Services

Child Care Development Cluster:

Child Care and Development Block Grant (CFDA #93.575)

Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA #93.596)

Requirement

1. Funds may be used for childcare services in the form of certificates, grants or contracts (42 USC 9858c(c)(2)(A)).
2. Funds may be used for activities that improve the quality or availability of childcare services, consumer education and parental choice (42 USC 9858e).
3. Funds may be used for any other activity that the State deems appropriate to promoting parental choice, providing comprehensive consumer education information to help parents and the public make informed choices about child care, providing child care to parents trying to achieve independence from public assistance, and implementing the health, safety, licensing and registration standards established in State regulations (42 USC 9858c(c)(3)(B)).
4. No funds may be expended through any grant or contract for childcare services for any sectarian purpose or activity, including sectarian worship or instruction (42 USC 9858k(a)).
5. With regard to services to students enrolled in grades 1 through 12, no funds may be used for services provided during the regular school day, for any services for which the students receive academic credit toward graduation, or for any instructional services, which supplant or duplicate the academic program of any public or private school (42 USC 9858k(b)).
6. Except for Tribes, no funds can be used for the purchase or improvement of land, or for the purchase, construction, or permanent improvement (other than minor remodeling) of any building or facility (42 USC 9858d(b)).

Tribes may use funds for the construction and major renovation of child care facilities with ACF approval (42 USC 9858m(c)(6); 45 CFR section 98.84).

7. Except for sectarian organizations, funds may be used for the minor remodeling (i.e., renovation and repair) of childcare facilities. For sectarian organizations, funds may be used for the renovation or repair of facilities only to the extent that it is necessary to bring the facility into compliance with the health and safety standards required by 42 USC 9858c(c)(2)(F) (42 USC 9858d(b)).

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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Finding 2003-22, Continued

Finding

On a monthly basis, eligible childcare providers receive a subsidy payment that is based on the standard hours of childcare hours provided to each eligible child in their care in a given month. In order to receive a subsidy payment, each childcare provider submits a justification sheet to the Child Care Services Division (CCSD) that details the number of hours of care provided to each child.

In addition to the monthly subsidy payments, the CCSD also grants funds to Community Care Agencies and other care providers to enhance the quality of childcare. An example of such a grant is the Quality Incentive grant given to implement training programs and to link providers for educational purposes to enhance the quality of childcare. The grantee must develop a plan to use the funds and distribute the funds to various sources. Once the funds are distributed, recipients are required to report back to CCSD how the funds were spent.

During our testwork over monthly subsidy payments we noted the following:

- A. One out of thirty-one justification sheets selected that was for the month of May 2003 was not received until August 2003. Upon further review, we noted that the parent had been authorized for eighteen full days and five absent days of care. The provider had only indicated that the child was present for 13 days and therefore did not include how many days the child was absent. Per review of the justification sheet, there was no follow up performed by CCSD over the discrepancy.
- B. One out of thirty-one justification sheets selected for testwork incorrectly received an adjustment to reduce the payment amount to the provider for the childcare subsidy. For this particular provider, CCSD pays for a slot of the child for a number of allowed days that is not dependent on the actual number of days the child is present. Per review of the justification sheet, the child was not present the full number of days that the slot paid for and the provider had included the reasons why the child was not in attendance over and above the number of allowed absent days as required. During our review, we noted that there were two other children in this particular family that this error had occurred also, resulting in an incorrect adjustment of \$564, reducing the provider's subsidy payment.

Upon further review of the justification sheet, we noted another family where the same situation occurred and the provider had included explanations on why the child was absent. In this instance, the provider's subsidy payment was incorrectly adjustment by \$141. Upon our discussion with CCSD, they have subsequently noted this error and have returned the money originally adjusted back to the provider.

- C. Inconsistencies were noted with regards to how the provider completes the justification sheet. In some instances the total number of days the child was in attendance did not agree to the number of authorized days. The ways in which the provider indicates the number of closed days (i.e. holidays) is not always the same. Per discussion with CCSD, each provider receives instructions on how the form is to be completed and additionally if the provider appears to be completing the form incorrectly then CCSD will contact the provider to instruct them on the proper ways to complete.

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Finding 2003-22, Continued

- D. The State is required to report to the IRS and send to the providers a 1099 form for those who received direct payments totaling \$600 or more in the year. During our testwork and through confirmation with the Department of Finance and Management, we noted that three out of the thirty-one providers selected for testwork incorrectly received a 1099 form. These providers were incorrectly considered to be a business and not an individual.
- E. CCSD performs background checks on registered family childcare home providers, licensed childcare centers, and certified legally exempt providers. For licensed childcare centers who have many employees, we selected three persons from the Record Check Census Form from each center. During our testwork, over the background check process we noted the following:
- (1) Four employees within the eleven licensed facilities selected for testwork did not contain the background checks for the individuals.
 - (2) One out of the eleven licensed facilities selected did not contain a Record Check Census Form and therefore a sample of three employees could not be made.
 - (3) One of the eleven licensed facilities selected did not contain a Record Check Census Form but rather contained copies of the background check authorization form for those employees in the facility. For the provider, we selected three employees from the facility and noted that for two of three employees selected the file did not contain the background check for these individuals.

During our testwork over grant payments, the following was noted

- F. Large accredited providers are able to negotiate contracts with CCSD called a Formal Agreement for Child Care Services in which they receive a direct service grant. Direct service grants are for subsidized child care slots and specialized care. Funds are paid to providers to ensure that openings are available to meet specific needs. During our testwork over direct service grants, we noted one out of seven instances where the grantee had let their accreditation lapse and was currently in the process of completing a re-application. We inquired of CCSD to obtain supporting documentation over the re-application and as of January 22, 2004 the information had not been provided to us.
- G. Funding for quality activities for providers is paid for through CCSD entering into a mini-grant with a provider. Mini-grants provide the provider with funding for a variety of needs, such as toys, outdoor play equipment, education and training courses or fire and safety equipment. During our testwork over mini-grants, we noted one out of four instances where the grant award letter indicated that the grant was for a conference to be held in August 2002 for two days and that a report on expenditures to substantiate the grant paid was required to be filed with CCSD in October 2003, over a year later. Per discussion with CCSD, they indicated that the lengthy reporting period was a result of a human error and it should have been requested for October 2002. As of January 22, 2004, the report on expenditures had not been submitted by the grantee and CCSD had no documentation to support the amount paid to the provider.

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Finding 2003-22, Continued

- H. Quality incentive grants refer to a variety of grants to providers and other businesses and agencies aimed at generally enhancing the quality of the child care system in Vermont. During our testwork over quality incentive grants we noted the following:
1. Financial reports are required to be submitted by the grantee to support the amount of the grant payment. For the three grants selected for testwork we noted that none of the grants had submitted reports timely. In two out of the three grants selected for testwork, reports were not obtained until we requested them for our audit.
 2. A request for proposal for funding is required to be submitted by the provider in order to receive a quality incentive grant. During our testwork, we noted one out of three instances where the grantee did not submit a proposal for funding. Per discussion with CCSD, they indicated that this was a unique grant in that CCSD went in search of them to perform the services needed. However, there was no information in the file to substantiate this.
- I. School age grants are given to providers, Community Child Care Support Services Agencies or other community agencies to increase the quality of child care services for school age children. The grants are used for services such as to sustain and expand childcare networks, to increase quality of school age care or to increase training for childcare providers. During our testwork over school age grants, we noted that the grant award letter for the one grant selected for testwork indicated that an interim report describing the program status and expenditures to date was to be submitted on January 15, 2003 and a written narrative regarding services provided and a financial report on July 15, 2003. Per discussion with CCSD, they indicated that these reports were never received and no follow-up was noted.

Questioned Costs

\$1,000 – the amount of the grant payment made to the quality service grant.

Recommendation

We recommend that CCSD implement the necessary policies and procedures to adequately monitor subsidy and grant payments to providers to help ensure that all expenditures are allowable and properly supported.

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Finding 2003-23

Agency of Human Services

Child Care Development Cluster:

Child Care and Development Block Grant (CFDA #93.575)

Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA #93.596)

Requirement

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Finding

There are twelve community-based agencies that receive grants from the Child Care Services Division (CCSD) for the provision of childcare support services. The Community Child Care Agencies (CCCSA) are considered subrecipients. During our testwork over the monitoring of the CCCSA, we noted the following:

- A. The CCCSA are required to submit quarterly financial reports that indicates their expenditures for the quarter and program reports on a monthly, quarterly and yearly basis. Per review of the reports, it does not appear that the financial reports and the program reports are being reviewed.

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Finding 2003-23, Continued

- B. The CCSD Grant Monitors perform 2-5 reviews at the CCCSA as part of the quality assurance process and documents their findings on the Assessment I and Assessment II forms that are signed by the CCSD Grant Monitors and the CCCSA subsidy specialist. As part of our testwork, we reviewed five Assessment forms for each of the four CCCSA selected for testwork. During our testwork, we noted the following:
1. For one out of four CCCSA selected, the CCSD Grant Monitor completed only ten Assessment I forms, of which five were conducted on November 4, 2002 but not signed or corrected by the specialist until December 4, 2002. The remaining five Assessment forms were reviewed on December 4, 2002 and not signed or corrected by the specialist until January 9-17, 2003.
 2. For one out of four CCCSA selected the CCSD Grant Monitor completed only fifteen Assessment I forms of which eight were reviewed and signed by the specialist on October 30, 2002 and the remaining seven were reviewed and signed by the specialists on January 13, 2003.
- C. CCCSA's are required to submit a single audit report when a CCCSA receives more than \$300,000 in federal funds. We noted two out of four instances where the single audit report was not obtained. In addition, the remaining two CCCSA's where the single audit report was received, it did not appear that the report had been reviewed.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to adequately monitor the subrecipients of grant awards to help ensure that all expenditures are allowable.

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Finding 2003-24

Agency of Human Services

Child Care Development Cluster:

Child Care and Development Block Grant (CFDA #93.575)

Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA #93.596)

Requirement

The approved plan provides the specific eligibility requirements selected by each State/territory/tribe. Those requirements must comply with the following Federal requirements for individual eligibility:

1. Children must be under age 13 (or up to age 19, if incapable of self care or under court supervision), who reside with a family whose income does not exceed 85 percent of State/territorial/tribal median income for a family of the same size, and reside with a parent (or parents) who is working or attending a job-training or education program; or are in need of, or are receiving, protective services (42 USC 9858n(4); 45 CFR section 98.20(a)).
2. The award of CCDF funds to an Indian tribe shall not affect the eligibility of any Indian child to receive CCDF services in the state or States in which the Tribe is located (45 CFR section 98.80(d)).

Finding

The State of Vermont child care assistance programs, including services provided so that eligible parents may work, look for work, or participate in education or training preparatory to work, are administered by the Child Care Services Division (CCSD). CCSD grants funds to twelve Community Child Care Services Agencies (CCCSA) to provide eligibility determination services for the program. During our testwork over the eligibility process, we noted the following:

- A. An individual seeking childcare benefits is required to file and sign an application for subsidized childcare, which is sent to the CCCSA for review. During our testwork, we noted that for one of the thirty-one files selected for testwork that a re-application with proper verification forms had been submitted by the individual. While reviewing the re-application, we noted that the child care subsidy specialist had altered the date that the review needed to be conducted to a later period of time, and reperformed the re-application four months past the initial due date. Per discussion with CCSD, it was noted that the reason for the delay in re-application was that the individual was living in a home with another program participant receiving child care subsidy and in order to simplify the process since their incomes were pooled together, the eligibility of the two households would be reviewed together. However, we noted that per review of both the individuals' re-application forms, neither had included the other adult living in the household.

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Finding 2003-24, Continued

- B. One out of thirty-one files selected for testwork did not have an annual review conducted in the proper period of time. Per discussion with CCSD, it was noted that CCSD had extended the review period for one year for all files during the period of time the individual was eligible for services. No file documentation was noted to substantiate the extension.
- C. All applicants are required to submit information to verify household income, education/training plans and other financial benefits, such as child support. During our testwork, we noted that for one out of thirty-one files selected that proper documentation to support the individuals household income had not been received until eight months after the individual began to receive benefits, which does not appear to be a reasonable timeframe to substantiate the individuals eligibility.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to ensure that all individuals receiving benefits meet the necessary eligibility requirements in an appropriate timeframe.

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Finding 2003-25

Agency of Human Services

**Centers for Disease Control and Prevention - Investigations and Technical Assistance
(CFDA #93.283)**

Requirement

Matching or cost sharing includes requirements to provide contributions (usually non-Federal) of a specified amount or percentage to match Federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in kind contributions).

The specific requirements for matching, level of effort, and earmarking are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.

However, for matching, the A-102 Common Rule ('____.24) and OMB Circular A-110 ('____.23) provide detailed criteria for acceptable costs and contributions. The following is a list of the basic criteria for acceptable matching:

- Are verifiable from the non-Federal entity's records.
- Are not included as contributions for any other Federally-assisted project or program, unless specifically allowed by Federal program laws and regulations.
- Are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
- Are allowed under the applicable cost principles.
- Are not paid by the Federal Government under another award, except where authorized by Federal statute to be allowable for cost sharing or matching.
- Are provided for in the approved budget when required by the Federal awarding agency.
- Conform to other applicable provisions of the A-102 Common Rule and OMB Circular
- A-110 and the laws, regulations, and provisions of contract or grant agreements applicable to the program.

Finding

The Department operates nine grants as part of the Centers for Disease Control and Prevention – Investigations and Technical Assistance program. Of the four grants selected for testwork, the Tobacco Control Grant and the Cancer Prevention and Control Grant have matching requirements. During our testwork over the matching process, we noted the following:

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Finding 2003-25, Continued

- A. Per review of the Tobacco Control Grant there is a one to one match requirement, meaning that for each federal dollar spent the Department must match one dollar in nonfederal expenditures. The Department meets its matching requirement through the use of allocated Tobacco Settlement Funds that are budgeted to the Department on an annual basis. The total amount of Tobacco Settlement Funds utilized for the grant period was \$1,150,470. At the end of the grant period, the program specialist prepares a spreadsheet that compares the total amount of Tobacco Settlement Funds expended for the year to the amount of federal funds expended for the Tobacco Control Grant to ensure that the necessary match has been met. During our review of the matching process, we noted that the Department was unable to establish that the Tobacco Settlement Funds were spent on activities relating to the Tobacco Control Grant. As a result, we were unable to determine that the Department provided the necessary matching funds for the Tobacco Control Grant as required per the grant agreement.
- B. The Cancer Prevention and Control Grant has a three to one matching requirement, meaning that for every three federal dollars spent, the Department must spend one dollar. The Department meets its required match through a variety of external sources. During our testwork over the matching process, we noted the following:
1. The Department met \$308,308 of its matching requirement through contributed physician services for cancer screenings through the LadiesFirst Program. Under this program, the Department has agreed to reimburse the provider at the Medicare "B" reimbursement rates. The provider agrees not to bill the patient for any additional amount. The portion that is left "unpaid" is considered to be a contributed service by the provider and is included by the Department in the calculation of its matching requirement. We selected twenty-five physician invoices that were utilized in the matching process and noted the following:
 - In an effort to reduce the volume of checks paid to Fletcher Allen Health Care (FAHC) under the LadiesFirst program, the Department pre-pays FAHC for the physician services to be rendered. As individual transactions are processed for services rendered by FAHC, internally the prepaid amount is reduced. However, no reconciliation is performed at the end of the grant period to document whether or not the amount of services that was actually provided is equal to the amount that was prepaid to FAHC or whether or not FAHC was overpaid and owes a refund to the Department. As a result, we were unable to conclude whether or not FAHC had provided the required services for the amount paid and that the matching contribution had been calculated properly.

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Finding 2003-25, Continued

- Seven out of twenty-five invoices selected for testwork were for patients that had a private insurance carrier. The provider initially billed the private insurance carrier for the screening and then billed the Department for the remaining difference, resulting in a payment less than what the full Medicare "B" rate would have been. In these instances, the Department inappropriately included the amount paid by the insurance carrier as contributed matching services. In addition, the Department could not provide supporting evidence, such as an invoice, to support that two of the seven screenings were even performed.
- 2. \$54,000 of the required match was provided through donated time of physicians and other health care professionals. Per discussion with the Department we noted that it appeared that the majority of this time actually represented time that physicians, nurses and other medical practitioner had attended a LadiesFirst training session in which they were the participants and not the trainer. As no service was actually provided to the Department, this time is not a proper matching item as no benefit was received by the Department. The Department was unable to provide us with any additional information to support that the donated time was actually for services rendered on behalf of the Department.
- 3. An additional \$176,532 of the required match was provided through the Cancer Registry Service. The Cancer Registry Service is a databank used by the Department to track medical and statewide health trends concerning cancer. Hospitals are required to report incidence of cancer to the Cancer Registry as required by the Vermont Cancer Reporting Law. In 1998, the Department determined that the cost of each abstract reported by the hospital (with the abstract containing the cancer information) was \$41.42. Each year, the Department multiplies the total number of abstracts received by the rate of \$41.42 to determine the hospital's contributory service for the Department's matching requirement. The number of abstracts is obtained from the Department's registry system, and can be uploaded to provide support for the transaction total. During our testwork over the matching funds, the Department was neither unable to provide any documentation to support how the cost of \$41.42 was derived nor that the estimate had been reviewed to ensure that it was still valid for the year ending June 30, 2003. As a result, we are unable to determine the reasonableness of this matching source of funds.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

STATE OF VERMONT
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Finding 2003-25, Continued

Recommendation

We recommend that the Department implement the necessary control policies and procedures to adequately monitor, document and reconcile the matching funds used for all grants to ensure compliance with Federal requirements.

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Finding 2003-26

Agency of Human Services

**Centers for Disease Control and Prevention - Investigations and Technical Assistance
(CFDA #93.283)**

Requirement

Cost must be reasonable and necessary for the performance and administration of Federal awards. Costs must be allocable to the Federal awards under the provisions of the cost principles or CASB Standards, as applicable. A cost is allocable to a particular cost objective (e.g., a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such cost objectives in accordance with relative benefits received.

Finding

The Department requires that all grant programs requesting a payment for services or goods to complete and sign a coding/cover sheet in order for a payment to be paid. The coding/cover sheet contains information such as the account code to be charged, along with the fund, department identification number, program code and the project grant code. The Program Director/Program Chief for each grant is responsible for reviewing the invoice and requesting that the coding/cover sheet be completed if the cost is appropriate and allowable under the grant. Once the coding/cover sheet has been completed, it is required to be signed indicating that the cost has been approved prior to being sent to the Business Office for payment processing within the VISION system.

During our testwork over non-personal expenditures, we noted the following:

- A. Three out of the thirty-five invoices selected for testwork did not have a coding/cover sheet that was signed and approved for payment by the accounting supervisor.
- B. Two out of thirty-five invoices selected for testwork were costs paid to an insurance carrier. As part of the Cancer Prevention and Control Program, the Department hired a medical expert to provide consultation on breast and cervical cancer screenings, professional education, quality insurance and case management services. Per review of the invoice, we noted that the insurance costs related to malpractice liability insurance that was paid on behalf of the medical expert that had been hired as a subcontractor. Per review of OMB Circular A-87, Attachment B, Section 25.h, we noted that the costs of commercial insurance that protects against the costs of the contractor for correction of the contractor's own defects in materials or workmanship are unallowable. Based on this, it appears that the cost of the malpractice insurance paid is not an allowable cost and should not have been charged to the federal program.

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Finding 2003-26, Continued

Questioned Costs

\$3,529- total amount of insurance cost paid.

Recommendation

We recommend that the Department implement the necessary control policies and procedures to ensure that costs charged to federal programs be reasonable and necessary for the performance and administration of Federal awards and are in compliance with OMB Circular A-87.

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Finding 2003-27

Agency of Human Services

**Centers for Disease Control and Prevention - Investigations and Technical Assistance
(CFDA # 93.283)**

Requirement

The *Financial Status Report (FSR) (SF-269 (OMB No. 0348-0039) or SF-269A* is required to be submitted on an annual basis.

Finding

A-102 Common Rule requires that non-federal entities receiving Federal awards to establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance. As part of the internal control structure, non-federal entities are to provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

The Department is responsible for completing an annual Financial Status Report for the Tobacco Control Grant and the Cancer Prevention and Control Grant. Per review of the Financial Status Reports that were filed for each grant, the basis of accounting per the report was indicated as cash basis. However, per review of the Department's supporting documentation, the amounts included on the Financial Status Reports are on the accrual basis of accounting. As a result, the following reporting errors were noted:

1. Per review of the Financial Status Report for the Tobacco Control Grant, total expenditures were \$1,065,470, which were less than the current year expenditure amount of \$1,148,006 as reported in the VISION system, the State's centralized accounting system. This resulted in the Department underreporting the current year expenditures by \$82,586.
2. Per review of the Financial Status Report for the Cancer Prevention and Control Grant, total expenditures were \$1,570,866, which was more than the current year expenditure amount of \$1,516,363 as reported in the VISION system. This resulted in the Department over reporting the current year expenditures by \$54,503.

This finding is considered to be a material weakness.

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Finding 2003-27, Continued

Questioned Costs

\$82,586 – the amount of the underreported costs for the Tobacco Control Grant.

\$54,503 – the amount of the over reported costs for the Cancer Prevention and Control Grant.

Recommendation

We recommend that the Department implement controls and procedures to ensure that the Financial Status Reports are prepared using the proper basis of accounting so that the expenditures reported are in compliance with Federal regulations.

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Finding 2003-28

Agency of Human Services

**Centers for Disease Control and Prevention - Investigations and Technical Assistance
(CFDA #93.283)**

Requirement

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Finding

The Department grants funds from its federal programs to various organizations to support external programs that are consistent with the federal program objectives. All subrecipients are required to sign a grant agreement that outlines what the funding is to be used for, the total amount of funds being awarded and specific program requirements that must be met, such as the submission of invoices and financial or programmatic reports. During our testwork over subrecipient monitoring, we noted the following:

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Finding 2003-28, Continued

- A. Included in the signed grant agreement is a requirement that subrecipients have a single audit if they expend more than \$300,000 in federal funds. During our discussions with the Department and review of the subrecipient files we noted that audit reports are not obtained. Although the grant awards are typically below the \$300,000 threshold requiring a single audit, the Department has no mechanism in place to determine whether the subrecipient received federal awards from other sources that would have required them to have a single audit.
- B. There was one instance out of the twenty-five grants selected for testwork where the activities approved appeared to be more of a contract for services than a grant agreement. We noted an additional instance where the majority of the expenditures incurred under one of the grants appeared to be more of a fee for services agreement as there was no formal grant agreement to support the expenditures, indicating that the expenditures should be coded as other expenditures and not as a grant. Per discussions with the Department it appears that the Department does not have any guidelines that would assist them in determining whether or not the requested services represents a contract versus a grant agreement.
- C. There were seven instances out of twenty-five grants selected for testwork where funding under the grant was provided through multiple federal programs, each with a different corresponding CFDA number, including CFDA #93.283. During our review over the payment of these grants it was noted that the Department did not appear to be properly allocating the amounts paid to the corresponding CFDA number as indicated in the grant award document. As a result, for each of the seven grants selected for testwork, the amount of federal funding paid from CFDA #93.283 exceeded the awarded amount indicated in the grant award document. We obtained an additional listing of all grants from the Department whereby there were multiple federal funding sources that included CFDA #93.283 and noted that there were an additional nine grants that had similar funding structures. Per review of the additional grants, we noted that one out of the nine grants was also charged improperly, resulting in CFDA #93.283 to be overawarded.
- D. There was one instance out of twenty-five grants where the grant was improperly coded per the coding/cover sheet resulting in the expenditures being charged to the wrong program.
- E. There was a one out of twenty-five instance where the Department did not enter into a formal grant agreement with a subrecipient that was another state agency. Per discussion with Department, the Department had entered into a memorandum of understanding with the other state agency that included the program's CFDA number, amount of the grant, specific requirements of the grant and a signature between both parties acknowledging the funding. However per review of the memorandum of understanding, the above information had not been included and there was no indication that federal funding was included as part of the amount paid under the grant. In addition to the above, we selected one payment under our allowability testwork that had been coded as other expenditures by the Department that actually represented a grant payment. Per review of the grant payment, this payment was also made under a memorandum of understanding with another state agency. Per review of the memorandum of understanding, we noted that it also did not contain the proper award identification information.

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Finding 2003-28, Continued

- F. There were six out of twenty-five instances where the grant award document did not contain the proper CFDA number for the current year but rather contained the CFDA number for the prior year. We did note that the award number included on the grant award document did represent the current year award number.
- G. There were three out of twenty-five instances where the coding/cover sheets used to process the payments made under the grant did not contain the proper approval signatures.
- H. Various progress and year-end financial and programmatic reports are required to be submitted by the grantees. During our review of the reports we noted that there was no formal documentation to show that the Department had reviewed or approved the reports that were received. In addition, some of the reports did not include documentation to allow the Department to determine whether the funds were spent on allowable activities. Overall, the Department does not appear to have sufficient mechanisms in place to ensure that awarded funds are spent on allowable activities in accordance with the grant agreements.
- I. During our testwork over one out of twenty-five grants, we noted that the grant award document included a supplemental fee that would be paid to the subrecipients for each office visit per patient of \$25 and per lab procedures of \$5 in addition to the overall grant award received. Per discussion with the Department, they indicated this was to provide incentive for the subrecipient to submit the necessary forms in a timely manner. We reviewed the grant award between the program and the federal government and noted that there was no indication that these supplemental fees being paid to the subrecipients were allowable.

This finding is considered to be a material weakness.

Questioned Costs

\$44,576 – Total amount of funds overpaid under CFDA \$93.283 in bullet C above.

Recommendation

We recommend that the Department review its existing subrecipient monitoring policies and procedures and implement the necessary measures to adequately monitor the funds to help ensure that all subrecipient expenditures are allowable and in compliance with federal regulations.

STATE OF VERMONT
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Finding 2003-29

Agency of Human Services

Immunization Grants (CFDA #93.268)

Requirement

A pass-through entity is responsible for:

- Identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Factors such as the size of awards, percentage of the total program's funds awarded to subrecipients, and the complexity of the compliance requirements may influence the extent of monitoring procedures.

Monitoring activities may take various forms, such as reviewing financial and performance reports submitted by the subrecipient, performing site visits at the subrecipient to review financial and programmatic records and observe operation, arranging for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations, reviewing the subrecipient's single audit or program-specific audit results and evaluating audit findings and the subrecipient's corrective action plan.

Monitoring For-Profit Subrecipients

Significant portions for this program are passed through from the pass-through entity (usually the State) to for-profit subrecipients in the form of vaccine. Since OMB Circular A-133 does not apply to for-profit subrecipients, the pass-through entity is responsible for establishing requirements as necessary to ensure compliance by for-profit subrecipients (OMB Circular A-133 _____.210(e)) and for monitoring and

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Finding 2003-29, Continued

reporting program performance by for-profit subrecipients (A-102 Common Rule ' ___.40(a)). The compliance requirements applicable to for-profit subrecipients under this program are:

- a. Eligibility requirements in "III.E.1 Eligibility for Individuals"
- b. Control of vaccine in "III.N.1 Control, Accountability, and Safeguarding of Vaccine."
- c. Record keeping in "III.E.2 Record of Immunization"

Finding

The Department receives the majority of all requested vaccines under the Immunization Grant Program directly from the Centers for Disease Control (CDC) on an as needed basis. The vaccines are then distributed to a network of District Offices throughout the State of Vermont based on each District Office requesting the vaccine through a Vaccine Distribution Sheet. The Vaccine Distribution Sheet contains information regarding the District Office's inventory on hand, based on vaccine type and lot number, and documents the number of doses requested for delivery.

The vaccines that are provided to the District Offices are then distributed to local health care providers that have enrolled in the Vaccines for Children Program. Once enrolled, the health care provider is required to submit a Vaccine Accountability Sheet to the District Office requesting the type and amount of each vaccine that is needed. Once received, the health care provider administers the vaccine directly to the patient.

In order to ensure that the local health care provider and District Office is properly accounting for and administering the vaccines under the Immunization Grant Program, the Department conducts an on-site monitoring review of individual providers and District Offices. A Questionnaire is completed that discusses areas such as the provider's storage of vaccine and who they are administering the vaccine to. In addition, the Department conducts a chart review to ensure that the provider is maintaining adequate records to track who the vaccines were administered to.

During our testwork over the provider monitoring process, we noted the following:

- A. The Department does not distinguish between for-profit and non-profit health care providers. As a result, the Department has no mechanisms in place to determine which providers are having an audit performed in accordance with QMB Circular A-133. In addition, the Department does not request, receive or review any audited financial statements or single audit reports from any provider currently receiving vaccines under the Immunization Grant Program.

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Finding 2003-29, Continued

- B. As part of the Vaccines for Children (VFC) program, there are certain eligibility requirements that must be met in order for an individual to receive a vaccine from a provider. The Questionnaire that is utilized by the Department inquires whether or not the provider monitors VFC eligibility. The Department has not made this a requirement for providers to verify an individual's eligibility and has not routinely monitored this requirement. During our testwork over the monitoring process, we noted that all fifteen providers selected for testwork as well as the three district offices selected for testwork indicated that they did not monitor for VFC eligibility and the Department did not require corrective action from the provider or District Office.
- C. Providers are required to report to the Department the dates in which vaccines were administered to patients during the prior month as well as the age category that the patient fell in when placing an order for vaccines with the District Office. While this data is collected, the Department has no mechanisms in place to determine whether or not the data submitted by the provider is correct and complete. In addition, per discussion with the Department, various providers often do not complete the form correctly and show all doses being administered to the same age group all on the same day.
- D. The Department acts as the centralized depot for all vaccines for enrolled providers in the State of Vermont, in that those providers are also able to obtain all their required vaccines from the State of Vermont in addition to the VFC program. Vaccines are distributed to each provider based on lot number. The Department does not appear to have any controls in place to ensure that the vaccines that are distributed to providers under the VFC program were indeed administered to VFC eligible individuals.
- E. As part of the on-site review, the Department conducts a chart review of selected patients to ensure that the proper identifying information has been recorded in regards to the vaccine such as date administered and lot number. While the Questionnaire used in the on-site review indicated that a chart review was indeed conducted, we noted that a record of which charts were reviewed was not maintained and as such we were unable to verify that a chart review was actually conducted for the fifteen providers selected for testwork.
- F. As a result of the Department's on-site reviews, several areas of non-compliance or concerns were noted on the Questionnaire. Of the reviews selected for testwork, four of the fifteen provider site reviews and one of the three district office reviews did not receive written documentation of the issues noted by the Department, nor was a corrective action plan requested. In addition, we did not note any written follow-up by the State for an additional eight out of fifteen providers selected for testwork that did receive written documentation of the site visit and follow up on their corrective action plan.

This finding is considered to be a material weakness.

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Finding 2003-29, Continued

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department implement the necessary control policies and procedures to ensure that all vaccines used by health care providers and District Offices are properly monitored in accordance with OMB Circular A-133.

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Finding 2003-30

Agency of Human Services

Immunization Grants (CFDA #93.268)

Requirement

Effective control and accountability must be maintained for all vaccine. Vaccine must be adequately safeguarded and used solely for authorized purposes (A-102 Common Rule '____.20).

Finding

The Department of Health acts as the centralized depot for all vaccines for enrolled providers, in that those providers are also able to obtain all their required vaccines from the State of Vermont in addition to the Vaccines For Children (VFC) program. All vaccines are initially received directly by the Department of Health. In a monthly basis, vaccines are distributed to the Department's twelve area District Offices based on order requests prepared directly by the District Office. The District Office then releases the funds to enrolled providers based on the number of doses requested on a Vaccine Accountability Sheet. All vaccines are identifiable based upon a lot number assigned to the vaccine by the manufacturer.

During our testwork over the procedures in place to safeguard vaccines, we noted the following:

- a. The State does not monitor to ensure that it's District Offices stores VFC and 317 funded vaccines separately from vaccines funded through State funds. As such, there are no mechanisms in place to ensure that the vaccines received by the Centers for Disease Control (CDC) as part of the Immunization Grant Program were properly distributed as such to the provider.
- b. While it appears based on the Questionnaires completed during the Department's on site review that the provider stores State supplied vaccines separately from privately purchased vaccines, the State does not monitor to ensure that the provider stores VFC and 317 funded vaccines separately from other vaccines provided by the State. In addition, the State does not ensure that the lot number administered by the provider agree to the lot numbers shipped to the provider by the District Office.
- c. The Department completes a monthly inventory reconciliation of the vaccine inventory on hand to the balance as stated in the VACMAN system, the inventory tracking system provided by the CDC. The Department notifies the CDC that the inventory reconciliation has been completed, but does not maintain any formal documentation to substantiate their claim. As such, there are no mechanisms in place to allow us to verify that a monthly reconciliation of the inventory is being performed and that any adjustments made to the inventory balance is proper.

This finding is considered to be a material weakness.

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Finding 2003-30, Continued

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department implement the necessary control policies and procedures to ensure vaccines are adequately safeguarded and used solely for authorized purposes.

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Finding 2003-31

Agency of Human Services

Substance Abuse Prevention and Treatment Block Grant (CFDA #93.959)

Requirement

The State must provide for independent peer reviews which assess the quality, appropriateness, and efficacy of treatment services provided to individuals. At least 5 percent of the entities providing services in the State shall be reviewed. The State shall ensure that the peer reviewers are independent by ensuring that the peer review does not involve reviewers reviewing their own programs and the peer review is not conducted as part of the licensing or certification process (42 USC 300x-53; 45 CFR section 96.136)

Finding

During our testwork over the independent peer review process, we noted that there are currently no programs or processes in place to ensure regular independent peer review of treatment provider's facilities in the State of Vermont and there are no systems in place to ensure that five percent of treatment providers are reviewed annually. While some providers receive an accreditation from the Commission for Accreditation of Rehabilitation Facilities (CARF) or from the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) appear to satisfy the above requirement, entities that do not seek CARF or JCAHO accreditation will not be reviewed.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department implement the necessary policies and procedures to ensure regular independent peer review of treatment provider's facilities in the State of Vermont are conducted and that systems are in place to ensure that five percent of treatment providers are reviewed annually.

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Finding 2003-32

Agency of Human Services

Substance Abuse Prevention and Treatment Block Grant (CFDA #93.959)

Requirement

- a. The State shall for each fiscal year maintain aggregate State expenditures for authorized activities by the principal agency at a level that is not less than the average level of such expenditures maintained by the State for the two State fiscal years preceding the fiscal year for which the State is applying for the grant. The "principal agency" is defined as the single State agency responsible for planning, carrying out and evaluating activities to prevent and treat SA and related activities. The Secretary may exclude from the aggregate State expenditures funds appropriated to the principal agency for authorized activities which are of a non-recurring nature and for a specific purpose (42 USC 300x-30; 45 CFR sections 96.121 and 96.134).
- b. The State must maintain expenditures at not less than the calculated fiscal year 1994 base amount for SA treatment services for pregnant women and women with dependent children. The fiscal year 1994 base amount was reported in the State's fiscal year 1995 application (42 USC 300x-27; 45 CFR section 96.124(c)).

Finding

A-102 Common Rule requires that non-federal entities receiving federal awards to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance. As part of the internal control structure, non-federal entities are to provide reasonable assurance that all level of effort and earmarking requirements in effect for the period are monitored and supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

During our testwork over level of effort and earmarking requirements we noted the following:

- A. On an annual basis, the Department is required to maintain a level of expenditures related to the Substance Abuse Prevention and Treatment Program (SAPT) that is equal or greater than the average expenditures for the two preceding years. In order to ensure compliance with this requirement, the Department prepares a Quarterly Federal Claims Report that compiles the expenditure data for the SAPT program. The total expenditures are data entered into a spreadsheet that compares the current year's expenditures to the calculated average expenditures for the two proceeding years. Once calculated the amount is reported to the Federal government as part of the Department's annual grant application for funding. Per review of 45 CFR 96.134(d), the composition of the base amount is to be applied consistently from year to year. Per discussion with the Department and review of the calculation of the base amount for each of the last three consecutive years, the Department only utilizes the accrual basis of accounting when there is a claims short fall and does not apply this methodology consistently. As a result, we are unable to determine whether or not the Department met its required level of effort requirement. In addition, it does not appear as though the Department has any controls in place to adequately monitor that the proper level of effort related to spending has been met.

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Finding 2003-32, Continued

- B. In order to meet the requirements surrounding services provided to pregnant women and women with dependent children, the Department enters into grant agreements with services providers, who in turn render the services to individuals. Service providers are pre-paid quarterly. Service reports are submitted to the Department that documents the services that were performed by the provider. Based on the services performed for the quarter, the Department determines whether or not the service provider has under or over expended that quarterly grant payment. No adjustments are made to the subsequent quarterly payment to adjust for any services shortfalls by the provider. In addition, at the end of the grant year, if a provider has spent at least 90% of its award, but not the full 100%, the provider is allowed to keep the difference and the subsequent grant that is entered into between the Department and the provider is not properly adjusted to reflect this amount. As a result, we were unable to determine whether or not the Department has met the required level of effort requirement.
- C. The Quarterly Federal Claims Reports used to track expenditures are based on the expenditure data from the VISION system, the State of Vermont's centralized accounting system. The reports are composed of direct charges, which can be tied directly to the VISION system and indirect charges, which are costs within the VISION system that are allocated through a cost allocation program to various programs. Once this allocation process is performed, the Quarterly Federal Claims Report is prepared. The Department does not perform a reconciliation to ensure that the allocated costs were allocated properly and that the costs reconcile to the VISION system in total. As a result, we are unable to determine whether or not the costs in total agree to the VISION system.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department implement the necessary policies and procedures to ensure non-federal entities provide reasonable assurance that all level of effort and earmarking requirements in effect for the period are monitored and supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

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Finding 2003-33

Agency of Human Services

Substance Abuse Prevention and Treatment Block Grant (CFDA #93.959)

Requirement

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Finding

Funds granted under the Substance Abuse Prevention and Treatment Block Grant (SAPT) are to be used for planning, carrying out, and evaluating activities to prevent and treat substance abuse and other related activities. As the State does not own or operate its own substance abuse treatment facility, it grants funds to external parties to provide specified prevention and treatment services. During our testwork over the monitoring process over these grants, we noted the following:

1. In order for a grantee to receive a payment for services, a grant control form must be completed. The grant control form contains information about the grantee's name, award year, award amount, award type and funding source. During our testwork, we noted one out of forty-one instances where a grant control form was not completed.

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Finding 2003-33, Continued

2. A coding/cover sheet is used to track requests for payments and requires a number of signatures as well as the check number and date paid. We noted ten out of forty-one instances where the coding/cover sheet was initialed to be paid prior to the date that the grant period began. Two out of the ten grants noted actually had a release of funds prior to the date that the grant period began. In addition, it was noted that the coding/cover sheet rarely contained the check number, check amount or the date that the record was completed. In eight of the forty-one payments selected, the coding/cover sheet was not initialed to show that the payment had been approved for payment.
3. Each subrecipient providing treatment services is required to provide audited financial statements and when applicable, a single audit report. While it appears that in some instances the Department is receiving the required reports, there is no evidence that the reports are being received and that the issues identified in the reports are being followed up on. During our testwork, ten out of the twenty-nine providers selected for testwork did not submit their reports to the Department until November of 2003, when we requested the reports from the Department. Subrecipients providing prevention services are not required to furnish the required reports.
4. Monthly utilization reports are submitted to the Department via electronic tapes. The Department receives the information and compiles it into an annual summary report. However, there is no evidence that the Department is utilizing the information provided for tracking the activities of the subrecipients to ensure that the amounts paid to the subrecipient are proper, as the invoices paid by the Department are generic in nature and contain no detailed information on the services rendered for the period.
5. The Department does not require providers receiving \$100,000 or more in federal awards to certify that they have not been suspended or debarred from receiving federal funds.

This finding is considered to be a material weakness.

Questioned Costs

Not Determinable.

Recommendation

We recommend that the Department implement the necessary policies and procedures to monitor subrecipients to help ensure accurate compliance with Federal regulations.

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Finding 2003-34

Agency of Human Services

Child Support Enforcement (CFDA #93.563)

Requirement

The State IV-D agency must attempt to secure medical support information, and establish and enforce medical support obligations for all individuals eligible for services under 45 CFR section 302.33. Specifically, the State IV-D agency must determine whether the custodial parent and child have satisfactory health insurance other than Medicaid. If not, the agency must petition the court or administrative authority to include medical support in the form of health insurance coverage in all new or modified orders for support. The agency is also required to establish written criteria to identify cases not included above, where there is a high potential for obtaining medical support based on: (1) available evidence that health insurance may be available to the absent parent at reasonable cost, and (2) facts (as defined by the State) which are sufficient to warrant modification of an existing support order to include health insurance coverage for a dependent child(ren). For cases meeting the established criteria, the agency shall petition the court or administrative authority to modify support orders to include medical support in the form of health insurance coverage (45 CFR sections 303.31(b)(1)-(4)).

For non-TANF cases, the agency shall petition for medical support when the eligible individual is a Medicaid recipient or with consent of the individual if not a Medicaid recipient (45 CFR section 303.31(c)).

In cases where medical support is ordered, the agency is required to verify that it was obtained. If it was not obtained, the agency should take steps to enforce the health insurance coverage required by the support order, unless it determines that health insurance was not available to the absent parent at reasonable cost (45 CFR section 303.31(b)(7)).

The agency shall inform the Medicaid agency when a new or modified order for child support includes medical support and shall provide information to the custodial parent concerning the health insurance policy secured under any order (45 CFR sections 303.31(b)(5) and (6)).

Determine whether the State IV-D agency petitioned for and secured or pursued enforcement of medical support in the form of health insurance as part of support orders and informed the Medicaid agency and custodial parent as required.

Finding

All legal petitions to the Family Court in Vermont for child support include a request for medical support, whether or not health insurance at a reasonable cost is currently available. The request is included in the establishment package for a support obligation at the. Therefore, each court order that is issued by the Family Court concerning child support also includes a medical support order as well. During our testwork over securing and enforcing medical support obligations, we noted the following:

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Finding 2003-34, Continued

- A. If the Family Court orders that the non-custodial parent is required to provide medical support then a form is sent out to the employer. The employer is then responsible for completing the form and forwarding the information onto the health insurance carrier. During our audit, we noted that there is no follow-up procedures or mechanisms in place to ensure that the employer forwarded this information on to the health insurance carrier in order to provide that the necessary medical support has been received.
- B. If the court orders that the cost of providing medical support is not a reasonable cost or health insurance is not available from the employer, then the court will determine either that Medicaid assumes the responsibility. During our audit, we noted that once this determination is made there is no procedures in place should the cost of health care become available at a reasonable cost (i.e. a non-custodial parent receives a raise or changes jobs).

We did note that the Department has implemented procedures for the National Medical Support Notices, which outlines the responsibility for tracking and processing medical support notices and responses received from employers, non-custodial, custodial and plan administrator. However, at this time, there is little in the way of ACCESS system support for the various actions the child support case technician must take at various points during the process. OCS is currently in the process of designing system support processes for the case technician's work. As a result of the deficiencies noted above, we were unable to test this requirement.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Office of Child Support implement the necessary policy and procedures to ensure proper compliance with the requirements listed above regarding the need to secure medical support information and to enforce the medical support obligations.

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Finding 2003-35

Agency of Human Services

State Administrative Matching Grants for Food Stamp Program (CFDA #10.561)

Requirement

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Finding

The Agency has approximately 65 different agencies that provide various Reach Up services in connection with the Welfare-to-Work initiative. In order to fund the Reach-Up services the Agency enters into a grant agreement that provides both state and federal funding.

During our testwork over subrecipient monitoring, we noted the following:

1. The Agency does not have policies and procedures in place to obtain subrecipient audit reports, such as audited financial statements and single audit reports, within 9 months of the subrecipient's year-end. In addition, the Agency does not have policies and procedures in place to review those reports and provide management decisions on any audit findings noted during any review that may take place.

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Finding 2003-35, Continued

2. We noted eight out of fifteen subrecipient grant agreements selected for testwork did not contain the award identification such as the CFDA title and number, award name, name of the Federal Agency.
3. We noted seven out of fifteen subrecipient grant agreement selected for testwork did contain the funding source such as Food Stamps, however the CFDA number, title, and name of the Federal Agency was not included.
4. We noted that all fifteen subrecipient grant agreements selected for testwork did not contain the breakout of federal funding. The subrecipient received funding under Temporary Assistance for Needy Families, Food Stamps, and State general funds. The grant agreement was not clear as to the percentage breakout of federal funding versus state funding
5. We noted that one out of fifteen subrecipients selected for testwork did not have any monitoring activities performed such as on-site monitoring or performance reporting.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend the Department implement the necessary policies and procedures to help ensure that all grant agreements are properly monitored, that the grant agreements contain the appropriate Federal grant information and that subrecipient audit reports are obtained and reviewed timely as required by OMB Circular A-133.

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Finding 2003-36

Agency of Human Services

Low Income Home Energy Assistance Program (CFDA #93.568)

Requirement

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Finding

The Crisis Fuel Assistance Program is a part of the Low Income Home Energy Assistance Program (LIHEAP) block grant that refers to fuel assistance payments that are made to eligible participants in an emergency situation. Crisis Fuel Assistance may be extended to alleviate an emergency due to lack of heating capacity for individual households. The Fuel Office contracts with 5 Community Action Agencies (CAA) throughout the State of Vermont to perform services for the Crisis Fuel Assistance program. The services that are performed include providing direct crisis fuel assistance to eligible clients with incomes not exceeding 150% of the poverty based on household size. Assistance includes an explanation of and completion of an application for fuel assistance to determine eligibility for such services.

The Fuel Office enters into a grant agreement with each of the CAA's that is signed by the Commissioner of PATH and the Director of the Grantee Agency. Per review of the grant agreement, we noted that the agreement did not contain the proper federal award information. Proper federal award information includes the following:

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Finding 2003-36, Continued

- Catalogue of Federal Domestic Assistance (CFDA) title and number;
- The award name and amount;
- The name of Federal agency; and
- Requirements imposed by laws, regulations and the provisions of contract or grant agreements.

In addition, in exchange for Federal funds, the CAA's determine client eligibility for crisis fuel assistance. To ensure that Federal funds are spent properly, the Fuel Office provides the following oversight and monitoring activities for the CAA's:

- Annual training is provided to the CAA Crisis staff in November to provide assistance in the eligibility process;
- Monthly meetings with all CAA Crisis Coordinators are held with the Fuel Office to review program delivery;
- Written memos are created, as appropriate, to provide the CAA with updated or clarifying information about the program;
- At least one on site monitoring visit is conducted at each CAA that includes:
 - A. A review of the program activity with Crisis Coordinators and staff;
 - B. Observing the processing of at least two grant requests;
 - C. A review of a minimum of ten grant files to ensure eligibility has been determined properly; and
 - D. A written report of findings is provided to the CAA.

During our testwork over the monitoring process, we noted that while on-site monitoring had occurred, final reports were not issued and corrective action plans were neither generated nor followed-up on. In addition, we noted that of the ten files selected for testing at one subrecipient, two had problem costs, three had questionable costs and three files were denied. No additional testing or follow-up was done by the Fuel Office.

This finding is considered to be a material weakness.

Questioned Costs

Not Determinable.

Recommendation

We recommend that the Fuel Office implement the necessary policies and procedures to ensure that all subrecipients are properly monitored and that grant agreements are written in accordance with OMB Circular A-133.

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Finding 2003-37

Agency of Human Services

Low Income Home Energy Assistance Program (CFDA #93.568)

Requirement

Grantees may provide assistance to: (1) households in which one or more individuals are receiving Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), Food Stamps, or certain needs-tested veterans benefits; or (2) households with incomes which do not exceed the greater of 150 percent of the State's established poverty level, or 60 percent of the State median income. Grantees may establish lower income eligibility criteria, but no household may be excluded solely on the basis of income if the household income is less than 110 percent of the State's poverty level. Grantees may give priority to those households with the highest home energy costs or needs in relation to income (42 USC 8624(b)(2)).

Finding

The Crisis Fuel Assistance Program is a part of the Low Income Home Energy Assistance Program block grant that refers to fuel assistance payments that are made to eligible participants in an emergency situation. Crisis Fuel Assistance may be extended to alleviate an emergency due to lack of heating capacity for individual households. The Fuel Office contracts with the 5 Community Action Agencies (CAA) throughout the State of Vermont to perform services under the Crisis Fuel Assistance program. The services that are performed include provide direct crisis fuel assistance to eligible clients with incomes not exceeding 150% of the poverty based on household size. Assistance includes an explanations of and completion of an application for fuel assistance to determine eligibility for such services.

As part of the services rendered by the CAA, the CAA is responsible for determining eligibility for the Crisis Fuel Assistance Program. In order to determine eligibility, an application is completed and a determination is made as to whether or not the applicant meets the 150% poverty level requirement. If so, an invoice is obtained to support the cost to be paid on the applicant's behalf for home energy needs. During our testwork over the eligibility process at the CAA, we noted that one out of six individuals selected for testwork did not have an application to indicate that the applicant was eligible for services or an invoice to support the benefit payment made on the applicants behalf. As a result, we were unable to determine whether or not the applicant was eligible for services and that the amount paid was proper.

This finding is considered to be a material weakness.

Questioned Costs

\$484 – the amount paid to the recipient.

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Finding 2003-37, Continued

Recommendation

We recommend that the Fuel Office implement the necessary policies and procedures to ensure that all eligibility determinations the Crisis Fuel Assistance Program are completed within program guidelines and to ensure that proper supporting documentation is obtained to substantiate amounts paid on an applicant's behalf.

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Finding 2003-38

Agency of Human Services

Medicaid Assistance Program (CFDA #93.778)

Requirement

The State is required to credit the Medicaid program for (1) State warrants that are canceled and uncashed beyond 180 days of issuance (escheated warrants) and (2) overpayments made to providers for medical services within specified timeframes. In most cases, the State must refund providers overpayments to the Federal government within 60 days of identification of the overpayment, regardless of whether the overpayment was collected by the provider (42 CFR sections 433.300 through 433.320 and 433.40).

Finding

During our testwork over canceled and uncashed checks, we noted that uncashed checks greater than 180 days of issuance had not been credited to the Medicaid program.

Questioned Costs

\$1,551 – Amount represents all uncashed and canceled checks over 180 days at June 30, 2003.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to help ensure that all staledated checks are credited to the Medicaid program within 180 days.

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Finding 2003-39

Agency of Human Services

Medical Assistance Program (CFDA #93.778)

Requirement

The State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. In addition, the State must have: (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and, (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials (42 CFR parts 455, 456, and 1002).

Suspected fraud should be referred to the State Medicaid Fraud Control Units (42 CFR part 1007).

The State Medicaid agency must establish and use written criteria for evaluating the appropriateness and quality of Medicaid services. The agency must have procedures for the ongoing post-payment review, on a sample basis, of the need for and the quality and timeliness of Medicaid services. The State Medicaid agency may conduct this review directly or may contract with a PRO.

Finding

The Delmarva Foundation for Medical Care, Inc. has been contracted by the Department to provide a program of utilization, peer review, and analysis that safeguards against unnecessary or inappropriate use of Vermont Medicaid covered services and assesses the quality of services provided to recipients in the Medicaid program. Under the contract, Delmarva will provide pre-procedural, pre-admission, retrospective, and concurrent reviews. In addition, Delmarva provides monthly, quarterly, and annual reports based on the types of reviews performed.

During our testwork, we noted that the Department was not in compliance with regulation 42 CFR 456.23 dealing with post-payment claim review, which impacts their ability to detect potential cases of fraudulent and abusive billing. Specifically, "the Department must have a post-payment review process that (a) allows State personnel to develop and review recipients utilization profiles, provider service profiles, and exception criteria and (b) identifies exceptions so that the Agency can correct misutilization practices of recipients and providers." During testwork it was noted that while Delmarva Foundation had conducted post-payment reviews, there was no physical evidence to support that the reports received by the State were actually reviewed and followed up on.

Questioned Costs

Not determinable.

STATE OF VERMONT
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Finding 2003-39, Continued

Recommendation

We recommend the Agency develop a post-payment review system documentation format to identify fraud and abuse in the Medicaid program in order to ensure compliance with the requirement for the State to have: (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and, (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials.

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Finding 2003-40

Agency of Human Services

Medical Assistance Program (CFDA #93.778)

Requirement

Funds can only be used for Medicaid benefit payments (as specified in the State plan, Federal regulations, or an approved waiver), expenditures for administration and training, expenditures for the State Survey and Certification Program, and expenditures for State Medicaid Fraud Control Units (42 CFR Sections 435.10, 440.210, 440.220, and 440.180).

Finding

On November 27, 2002, the Division of Licensing and Protection for the State of Vermont (the "Division") conducted an on-site review of the Vermont State Hospital (the "Hospital") as a result of two complaints received by the Division regarding resident rights violations and allegations concerning care and services. As a result of the on-site review, one of the two complaints of abuse were substantiated and noncompliance with the following regulations were noted:

- 42 CFR 282.11 - Compliance with Federal, State and Local Laws Condition of Participation
- 42 CFR 482.12(b) - Chief Executive Officer
- 42 CFR 482.23(b) – Staffing and Delivery of Care
- 42 CFR 482.12(f)(2) – Seclusion and Restraint for Behavior Management

The Hospital prepared and submitted a corrective action plan that was accepted by the Division on February 4, 2003 to correct the above noted instances of noncompliance.

During the period of March 17 – 20, 2003, the Division conducted a recertification survey in order to certify the Hospital in order for the Hospital to remain eligible to receive federal funds. As a result of the survey, the Division notified the Hospital on March 26, 2003 that the following noncompliance with federal regulations were noted:

- 42 CFR 482.12(b) – Chief Executive Officer
- 42 CFR 482.21 – Condition of Participation Quality Assurance
- 42 CFR 482.23(b) – Staffing and Delivery of Care
- 42 CFR 482.24(c) – Content of Record
- 42 CFR 482.28(a) – Organization
- 42 CFR 482.41(b) – Life Safety from Fire
- 42 CFR 482.13 – Patient Rights
- 42 CFR 482.12(c)(3) – Privacy and Safety
- 42 CFR 482.13(d) – Confidentiality of Patient Records
- 42 CFR 482.13(f)(1) – Seclusion and Restraint for Behavior Management

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Finding 2003-40, Continued

The Hospital prepared and submitted a corrective action plan that was accepted by the Division on April 11, 2003.

In addition to the Divisions survey conducted, the Centers for Medicare & Medicaid Services ("CMS") of the Department of Health and Human Services conducted an on-site review on March 20, 2003. During the review conducted by CMS, the following additional instances of noncompliance with federal regulations were noted:

- 42 CFR 482.61 – Special Medical Record Requirements for Psychiatric Hospitals
- 42 CFR 482.61(a)(5) – Development of Assessment/Diagnostic
- 42 CFR 482.61(c)(1) and (2)– Treatment Plan
- 42 CFR 482.61(e) – Discharge Planning – Summary
- 42 CFR 482.62 – Special Staff Requirements for Psychiatric Hospitals
- 42 CFR 482.2(a)(2) and (3)– Personnel
- 42 CFR 482.62(b)(2) – Medical Staff
- 42 CFR 482.62(d), d(1) and d(2) – Nursing Services

The Hospital prepared and submitted a corrective action plan that was accepted by CMS on June 5, 2003. Although the corrective action plan was accepted, CMS notified the Hospital that the Hospital's license allowing them to receive federal funding would terminate July 11, 2003 if the Hospital failed to comply with federal regulations upon another review.

During the period of June 2 through June 4, 2003, the Division conducted a revisit survey at the Hospital. The result of the revisit survey found that the hospital was still in noncompliance with the following regulations that were cited in the initial recertification survey:

- 42 CFR 482.23(b) – Staffing and Delivery of Care
- 42 CFR 482.24(c) – Content of Record

Based on the results of the review, CMS notified the Hospital that the termination date for the Hospital's license had been moved to August 31, 2003 if the Hospital failed to achieve full compliance with federal regulations prior to this date.

During the period of August 11 –August 13, 2003, the CMS conducted a revisit survey at the Hospital and found the Hospital to still be in noncompliance with the following regulations:

- 42 CFR 482.61 – Special Medical Record Requirements for Psychiatric Hospitals
- 42 CFR 482.61(c)(1) and (2)– Treatment Plan
- 42 CFR 482.62(b)(2) – Medical Staff
- 42 CFR 482.62(d), d(1) and d(2) – Nursing Services

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Finding 2003-40, Continued

A follow up survey was conducted during the period of August 18 – 20, 2003 in response to a patient's untimely death and two complaints concerning the care and services provided to residents. The following additional violations were noted at that time:

- 42 CFR 482.12(b)- Chief Executive Officer
- 42 CFR 482.23(b)(3) and (4) – Element of Standard Staffing and Delivery of Care
- 42 CFR 482.24(c)(2)(vi) – Element of Standard Content of Record
- 42 CFR 482.13 - Patients Rights
- 42 CFR 482.13(c)(2) and (3) – Privacy and Safety
- 42 CFR 482.13(f)(2) – Seclusion and Restraint for Behavior Management

The Hospital prepared and submitted a corrective action plan to CMS for the surveys conducted in August, which were not accepted by the CMS. In addition, CMS conducted another on-site investigation during the period of September 16 – 18, 2003 in response to a report of another patient's untimely death. Similar violations of regulations as noted above were identified as a result of this review.

On September 30, 2003 the Hospital had its license revoked and is no longer eligible to receive federal funding under the Medicaid program.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency review its policies and procedures to ensure compliance with the applicable federal requirements with regard to patient care. This will help ensure that all costs charged to the program are eligible and properly supported.

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Finding 2003-41

Agency of Human Services

Temporary Assistance for Needy Families (CFDA #93.558)

Requirement

The State or Tribal Plan provides the specifics on how eligibility is determined in each State or Tribal service area. Plan and eligibility requirements must comply with the Federal requirements.

Finding

When an applicant applies for benefits under the Temporary Assistance for Needy Families (TANF) program, an application is completed and reviewed by an Eligibility Specialist at one of the Department of Prevention, Assistance, Transition, and Health Access (PATH) District Offices. The application serves as the basis of obtaining information from the applicant in order to determine whether or not the applicant is eligible for program benefits. The Eligibility Specialist takes the information from the application and data enters the information into ACCESS, the State of Vermont's benefit eligibility determination system. ACCESS determines the applicant's eligibility as well as the amount of benefits that the applicant is eligible to receive based upon family size and resources. Information such as the applicant's household size, income, and shelter expenses is obtained to calculate the applicant's eligible monthly benefit. The applicant is required to report any changes in the household, such as a change in income, within ten days of the change as such a change would have an impact on the monthly benefit amount. Applicants receive their benefit payments in two monthly installments, unless the applicant also has child support collected for them, in which case those applicants receive their full benefit payment on the first of the month. The first installment represents 60% of the total grant and is paid on the first of the month. The remaining 40% is paid on the fifteen of the month. If there are any household changes that occurred during the month, the ACCESS system would recalculate the benefit amount and the change in the benefit amount is reflected in the payment usually made on the fifteen. During our testwork, we noted four out of thirty applicants had their benefit payment incorrectly calculated by ACCESS, resulting in the applicant being overpaid due to a program error that was subsequently identified and corrected by the Department.

Questioned Costs

Not determinable.

Recommendation

We recommend the Department implement the necessary policies and control procedures to help ensure that eligibility determinations and that benefit calculations are properly calculated based upon family size and resources.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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Finding 2003-42

Agency of Human Services

Temporary Assistance for Needy Families (CFDA #93.558)

Requirement

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Finding

The Agency has approximately 65 different agencies that provide various Reach Up services in connection with the Welfare-to-Work initiative. The Agency enters into a grant agreement with the Reach-Up service provider that helps fund the services using both state and federal money.

During our testwork over subrecipient monitoring we noted the following:

1. The Agency does not have policies and procedures in place to obtain subrecipient audit reports, such as audited financial statements and single audit reports, within 9 months of the subrecipient's year-end. In addition, the Agency does not have policies and procedures in place to review those reports and provide management decision on any audit finding that may be noted during the review.

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Finding 2003-42, Continued

2. We noted eight out of fifteen subrecipient grant agreements selected for testwork did not contain the award identification such as the CFDA title and number, award name, name of the Federal Agency.
3. We noted seven out of fifteen subrecipient grant agreement selected for testwork did contain the funding source such as TANF funds, however the CFDA number, title, and name of the Federal Agency was not included.
4. We noted that all fifteen subrecipient grant agreements selected for testwork did not contain the breakout of federal funding. The subrecipient receives funding under Temporary Assistance for Needy Families, Food Stamps, and State general funds. The grant agreement was not clear as to the percentage breakout of federal funding versus state funding
5. We noted that one out of fifteen subrecipients selected for testwork did not have any monitoring activities performed such as on-site monitoring or performance reporting.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend the Department implement the necessary policies and procedures to help ensure that all grant agreements are properly monitored, that the grant agreements contain the necessary information pertaining to the federal nature of the funding and that and the subrecipient audit reports are obtained and reviewed in accordance with OMB Circular A-133.

STATE OF VERMONT
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Finding 2003-43

Agency of Human Services

Temporary Assistance for Needy Families (CFDA #93.558)

Requirement

State agency must reduce or terminate the assistance payable to the family for refusal to work subject to any good cause or other exemptions established by the State. HHS may penalize the State by an amount not less than one percent and not more than five percent of the SFAG for violation of this provision (42 USC 609(a)(14); 45 CFR sections 261.14, 261.16, and 261.54).

Finding

The Department of Prevention, Assistance, Transition, and Health Access (PATH) is responsible for monitoring an applicant's work requirements. Applicants are assigned a Case Manager that ensures that the applicant is working towards or is meeting their work requirements. If an applicant is not meeting or refuses to comply with the work requirements, the applicant is sanctioned and their benefits are reduced or terminated. In order to ensure that the applicant has been sanctioned, a code is entered into the ACCESS system that results in the benefit amount being reduced or terminated. During our testwork we noted that that ACCESS system has specific sanction codes however there is not one specifically for refusal to work. Therefore we were unable to determine the correct population for us to select a sample of applicants to ensure that the above stated requirement was being met. As a result, we were unable to test this requirement.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable

Recommendation

We recommend the Department implement the necessary policies and procedures to help ensure the penalty for refusal to work is adequately monitored and benefits are reduced or terminated accordingly.

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Finding 2003-44

Agency of Human Services

Temporary Assistance for Needy Families (CFDA #93.558)

Requirement

If an individual is an adult single custodial parent caring for a child under the age of six, the State may not reduce or terminate assistance for the individual's refusal to engage in required work if the individual demonstrates to the State an inability to obtain needed child care based upon the following reasons: (a) unavailability of appropriate child care within a reasonable distance from the individual's home or work site; (b) unavailability or unsuitability of informal child care by a relative or under other arrangements; and (c) unavailability of appropriate and affordable formal child care arrangements. The determination of inability to find child care is made by the State. HHS may penalize a State for up to five percent of the SFA for violation of this provision (42 USC 607(e)(2) and 609(a)(11); 45 CFR sections 261.15, 261.56, and 261.57).

Finding

The Department of Prevention, Assistance, Transition and Health Access (PATH) is responsible for monitoring this requirement. If an individual is an adult single custodial parent caring for a child under the age of six, the work requirements are deferred if the parent meets one of the requirements. The work deferral is documented within the applicant's file. During our testwork, we noted that that ACCESS system has specific sanction codes to identify if an applicant has been sanctioned and the applicant's benefits have been reduced. However there is not one sanction specifically for an individual who is an adult single parent caring for a child under the age of six. As a result, we were unable to determine the population from which we could select a sample from and we were unable to test this requirement.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend the Department implement the necessary policies and procedures to help ensure that an adult single custodial parent caring for a child under age of six, is adequately monitored and benefits are reduced or terminated accordingly.

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Finding 2003-45

Agency of Human Services

Temporary Assistance for Needy Families (CFDA #93.558)

Requirement

If the State agency responsible for administering the State plan approved under Title IV-D of the Social Security Act determines that an individual is not cooperating with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual, and reports the information to the state agency responsible for TANF, the State TANF agency must (1) deduct an amount equal to not less than 25% from the TANF assistance that would otherwise be provided to the family of the individual, and (2) may deny the family any TANF assistance. HHS may penalize a State for up to 5% of the SFAG for failure to substantially comply with this required State child support program (42 USC 608(a)(2) and 609(a)(8); 45 CFR sections 264.3 and 264.31).

Finding

The Office of Child Support (OCS) is the State Agency responsible for determining whether or not an individual is cooperating with the State in establishing paternity, or establishing, modifying or enforcing a support order with respect to a child of an individual. OCS sends the Department of Prevention, Assistance, Transition and Health Access (PATH), the State Agency responsible for the Temporary Assistance for Needy Families (TANF) program, a message within Access, the OCS due diligence system, when an individual is not cooperating. It is then PATH's responsibility to sanction the individual's TANF benefits. During our testwork, the Agency was unable to provide us with a listing of all cases that were referred to PATH for noncooperation. As such, we were unable to determine the population from which we could select a sample from and were unable to test this requirement.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend the Department implement the necessary policies and procedures to help ensure that all cases that are not cooperating with OCS are properly referred and identified within the ACCESS system.

STATE OF VERMONT
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Finding 2003-46

Agency of Human Services

Social Service Block Grant (CFDA #93.667)

Requirement

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* - Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Finding

Annually the Agency of Human Services (the "Agency") allocates its Social Services Block Grant (SSBG) to various Departments several of which pass-through funds to other grantees. During fiscal 2003, the Department of Developmental and Mental Health Services (DDMHS), the Central Office, the Department of Health (DOH), and the Department of Aging and Disabilities (DAD) passed-through part of their SSBG funds to subrecipients. During our review of each Department's subrecipient monitoring policies and procedures, we noted the following:

1. Department of Developmental and Mental Health Services

The Department grants funds to twenty-one subrecipients that perform Community Rehabilitation and Treatment services and Community-Based Treatment and Support Services. During our review of five subrecipients, we noted the following:

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Finding 2003-46, Continued

- A. Each subrecipient is required to enter into a signed agreement with the Department prior to receiving payment for services. Per review of the agreement, we noted while the agreement included the federal award name, the CFDA number associated with the award was not included. Per discussion with the Department, the CFDA information is provided in other information subsequently given to the subrecipient.
- B. All subrecipients are required to submit annual audited financial statements and single audit reports in accordance with OMB Circular A-133. Each report is detailed reviewed by the Department, and any issues concerning the audit opinion or findings are followed up on by the Department through written communication. During our testwork, we noted that one out of five subrecipients selected for testwork had submitted a single audit report that was not in compliance with OMB Circular A-133 and the Department did not follow up on the deficiencies with the subrecipient.
- C. The Department does not have any procedures in place to verify that the grantee has not been suspended or debarred from receiving federal funds.

2. Central Office

The Central Office grants funds to one subrecipient that performs legal services. During our review of this subrecipient, we noted the following:

- A. Central Office enters into a signed grant agreement with the subrecipient. During our testwork, we noted that there is no reference made in the grant agreement to identify that federal funds are used to pay for the cost of the grant. The CFDA title and number, the award name, the name of the Federal agency or requirements imposed by laws, regulations were not properly identified.
- B. Central Office requires the sub recipient to submit annual audited financial statements and an A-133 audit report, which are reviewed and signed off on. During our test work over the review process, we noted that SSBG was not included on the subrecipient's Schedule of Federal Expenditures as a pass-through grant. Upon inquiry of staff as to why, they were unclear as to this matter and had not followed up on the issue with the grantee.

3. Department of Health

The Department of Health grants funds to one subrecipient that performs family planning services for low-income women who are not eligible for Medicaid assistance. During our review of this subrecipient, we noted the following:

- A. The subrecipient is required to submit a monthly invoice prior to receiving payment for services performed under the grant. Per review of the invoice, the invoice bills for 1/12th of the granted amount. There is no formal documentation that accompanies the invoice to support the amount billed, such as a detail of the expenditures incurred for that month. It was noted that on a quarterly basis, the

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Finding 2003-46, Continued

Department requires the subrecipient to submit quarterly financial information on year to date revenue and expenses. However, these reports are submitted electronically and there is no mechanism in place to document that the reports were reviewed to ensure that the level of funding paid to the subrecipient was based on actual expenses incurred.

- B. Per review of the grant agreement entered into with the subrecipient, the subrecipient is required to have an audit in accordance with OMB Circular A-133 if they expend more than \$300,000 in federal funds. During our discussions with the Department and review of the subrecipients file, we noted that an audit report was obtained by the Department, however it had not been reviewed.
- C. All invoices are required to have a coding/cover sheet attached to in prior to any payment being made. The coding/cover sheet contains the necessary approvals to authorize the payment to be made. During our testwork, we noted that one out of the two invoices selected for testwork did not have a coding/cover sheet that was signed and approved for payment by the accounting supervisor.

4. Department of Aging and Disabilities

During our review over the Department's subrecipient monitoring process for Homemaker Service providers, we selected five out of thirteen subrecipients and noted the following:

- A. Each Homemaker Service subrecipient is required to submit a monthly service report which detail the number of hours spent working with individuals for which SSBG funding will be received. During our review of these reports, we were unable to determine whether or not the reports were reviewed by the Department to ensure that the reports were accurate and properly supported program activities.
- B. Each Homemaker Service subrecipient charge fees for their services performed. On a monthly basis, each subrecipient submits a monthly financial report showing all revenue and expenses generated for the prior month. The data is related to the organization as a whole and does not specifically relate to the expenses and revenues related to the SSBG program. As such, the Department has no mechanism in place to determine whether or not the subrecipients have: 1) expended all of the SSBG funds on SSBG activities or 2) generated program income related to the SSBG funds granted and if so how that program income is being utilized to ensure compliance with federal standards.
- C. No on-site monitoring reviews or other monitoring procedures are performed over Homemaker Service subrecipients. As such, the Department has no mechanism in place to ensure that the subrecipients are using funds in accordance with grant requirements.
- D. All Homemaker Services subrecipients are required to have a financial statement and A-133 audit performed if the subrecipient's federal expenditures exceed \$300,000. During our review over the subrecipient monitoring process, we noted that three out of the four subrecipients selected for testwork did not have an A-133 audit performed even though their financial statement audit indicated that at least \$300,000 had been expended by the subrecipient.

STATE OF VERMONT
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Finding 2003-46, Continued

For Adult Day Service providers, we selected four out of twelve subrecipients and noted the following:

- E. Each Adult Day Service sub recipients charge fees for their services performed. On a monthly basis, each sub recipient submits a monthly financial report showing all revenue and expenses generated for the prior month. The data is related to the organization as a whole and does not specifically relate to the expenses and revenues related to the SSBG program. As such, the Department has no mechanism in place to determine whether or not the sub recipients have: 1) expended all of the SSBG funds on SSBG activities or 2) generated program income related to the SSBG funds granted and if so how that program income is being utilized to ensure compliance with federal standards.
- F. The Department does not have a system in place to determine whether subrecipients receive federal dollars from other sources to ensure whether or not an A-133 audit was necessary. During our testwork, we noted that none of the Adult Day Service providers had an A-133 audit and it was unclear based on the Department's data whether or not one should have been required.
- G. The Department does not monitor actual expenditures relating to SSBG to ensure that the grant amounts paid do not exceed expenditures incurred. As such, we were unable to determine whether or not the four subrecipients selected for test work had excess funds on hand.

This finding is considered to be a material weakness.

Questioned Costs

Not Determinable.

Recommendation

We recommend that the Agency review its existing subrecipient monitoring policies and procedures and implement the necessary measures to adequately monitor the SSBG funds to help ensure that all subrecipient expenditures are allowable and in compliance with federal regulations.